

EUROPEAN NEWS

Gordon Cramb reports on the FFf 20bn-a-year industry's new-found self-assuredness

Paris fashion wins national recognition



Part of the Thierry Mugler collection

HIGH-BOOTED and wide-shouldered, the figures patrol imposingly in the spotlight. Their kit of slate grey and verdigris, with flashes of Muscovite red, is completed with peaked cap and star on chest.

Paris, 10 days after the centre-right's return to power, has taken on a distinctly Soviet aspect. The new government of Mr Jacques Chirac may, however, be partially reassured by the news that the Russian invasion is so far confined to fashion week catwalks in the grounds of the Louvre.

Two of the country's leading designers of the post-Dior generation have chosen this theme for their shows. Thierry Mugler had his models stomping Red Guard-like through a Russian winter, while Jean-Paul Gaultier made prominent use of Cyrillic lettering.

Serious political statements are clearly not to be expected from the twice-yearly offerings of the designer houses, and the Paris prêt-à-porter collections have never lacked theatricality. For the current season of shows which ends today, though, shrill pantomime is in many cases giving way to a calmer self-assuredness of an industry which no longer needs to assert its right to exist.

Some 40 years after the New Look, and with the French women's ready-to-wear industry now carrying a turnover tag put by some estimates at FFf 20bn (£1.5bn), this is a rather late maturity. But changes are here and there under way in the structure of the designers' often precarious finances, following a significant reevaluation

'The main benefit we all got from this period is that we have come to be considered as a profitable and export-orientated industry. We are no longer considered futile. We are part of the image of our country and this is the first time we have had this image.'

of its national status brought about during the just-ended tenure of Mr Jack Lang as Culture Minister.

Mr Lang won loyalities partly by appearing at the occasional official function in an unconventional cut designer jacket, but Mr Francois Léotard, his similarly youthful successor, will have a hard task in matching the more concrete achievements of the Lang era. Notable among these is the Musée des Arts de la Mode, the fashion museum at the Louvre opened in January by President Francois Mitterrand.

This accorded the fashion industry the recognition previously reserved for "traditional" arts, and 200 years of history has been instantly reclaimed.

It is an industry which has long been undercapitalised, however, where emergent designers have had to rely on backers with varying degrees of patience. Even Dior has had financial difficulties and, despite the recent development

of a second marché on the Paris bourse for smaller companies, flotations by design houses have been conspicuously absent.

Partly, this is because the creative talent often resides in one person, whose departure or demise would overnight turn the company into a virtual shell. Others argue that an average investor would not easily understand the cost basis of assembling a collection.

Fashion houses are nonetheless seeking other ways to secure their future in an increasingly competitive environment more than 70 have been presenting their wares in Paris to the buyers from international retail outlets.

The Thierry Mugler company, now in its tenth year, is one example. The designer himself and two partners are in the process of negotiating the repurchase of a 75 per cent stake held by its Italian licensee.

Its board is also set to approve the opening of a Mugler shop in London next year, in

addition to those in Paris and Brussels and a planned Geneva outlet. A Mugler perfume is also in prospect to compete with existing designer label fragrances.

According to Mr Didier Grumbach, the Mugler president, the rapidly internationalising fashion market—particularly the breakthrough this decade into and from Japan—requires a centralised management approach at the same time as diversification both geographically and by product.

A dominance of the industry like that held for many years by Dior, Cardin and Yves Saint Laurent will not be repeated, he says. Mugler, with its 100 full-time employees, has been in profit for the last five years, but the number of new bidders for the buyers' eye grows each season.

Mr Grumbach is unhesitating in the recognition he accords to Mr Lang's efforts.

'The main benefit we all got from this period is that we have come to be considered as a profitable and export-orientated industry. We are no longer considered futile. We are part of the image of our country.'

Mr Léotard, it appears, may need to do little more than tread water. 'It is in nobody's interest to return to the past,' says Mr Grumbach. 'The work is done. I hope he will be supportive, but if he is not it wouldn't be a drama.'

The collections for fashion week are, it should be remembered, for the winter of 1986-87. By that time, he says which adorns the French body politic may be of an entirely different cut and hue.

W. German economy faces harder time

By Rupert Cornwell in Bonn

WEST GERMANY'S present glistening economic performance is likely to lose some of its lustre from the end of this year onward, with an upturn in inflation and a decline in corporate profits, according to the respected World Economic Institute of Kiel.

This is the principal conclusion of a study carried out by the institute into the impact of the dramatic fall in oil prices—a major ingredient in the country's rosy economic performance of late, which provides Chancellor Helmut Kohl with his strongest card in the campaign for the federal elections here scheduled for January 1987.

According to the study, growth of 3.5 per cent in 1986, fuelled by cheaper imports and rising consumer demand, could create 350,000 new jobs this year and generate a modest fall of around 150,000 in the total of unemployed, to some 2m by the end of 1986.

Inflation is likely to be below 1 per cent this year, the lowest level since 1954—a prediction supported by figures yesterday from North Rhine Westphalia showing that prices fell by 0.2 per cent in March.

But the Kiel group warns that the decline in oil and import prices will inevitably lose in impact as 1986 wears on.

Romanian economy troubled by winter energy cuts

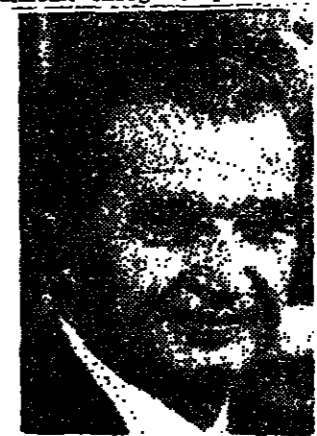
By Leslie Colitt, recently in Bucharest

THE PROGRESS of the Romanian economy towards the end of winter resembles that of Bucharest's overloaded buses a week after the last snowstorm. Wheels spin furiously on the ice-covered streets as drivers keep accelerators pressed to the floorboards. The loss of energy is enormous but the Romanian-built vehicles inch forward.

The buses at least had the streets to themselves as the use of private cars and taxis was prohibited. Safety was given as the reason but saving fuel was at least as important.

Cuts in district heating and electricity for several hours in the morning and evening left families huddled indoors wearing heavy sweaters, jackets and overcoats and often their fur hats. Street lights were dim and ambulances were unable to cope with calls from pregnant women deprived of transport to hospitals.

Greatly reduced gas pressure made it nearly impossible to cook food which had been difficult enough to procure in



Mr Ceausescu: "serious failings."

the first place. The fuel-saving restrictions—in effect for the second successive winter—are expected to last until late spring.

Eastern Europe's longest queues form each day outside Romania's butcher's shops where rationed meat is sold out shortly after delivery. Crowds also build up outside groceries when a truck arrives with a load of butter or cheese.

Food supplies have steadily worsened despite announcements that last year had produced the second bumper harvest in a row. The reports appeared premature. Romania's leader, President Nicolae Ceausescu, recently spoke of "serious failings" in agriculture.

Sensitive to rumours within the country that much food is being exported, Romanian officials cite statistics that only 11 per cent of exports consist of food and agricultural products. Western analysts however maintain that much of the meat which is sold in barter deals for oil does not appear in the annual trade statistics.

Severe energy cuts were imposed after a three-year drought virtually eliminated hydro-electric power—20 per cent of generating capacity. Officials say that normally there is enough water for hydro-electric power to cover peak loads.

Fuel problems have developed because scarce oil is used to generate at least 30 per cent of the nation's electric power. Replacing oil with domestic coal is proving difficult as output from strip lignite mining is growing only slowly and is frequently crippled in the winter.

Officials said the country's long-delayed first nuclear power

station at Cernavoda will produce some power by next year. But the Canadians who are providing the reactors say a more realistic expectation would be the early 1990s.

Romanian officials point out that the country is being hard pressed by its Western creditors to stick to the repayments timetable established after Romania's debt was rescheduled in 1982 and 1983. This involves a further belt-tightening by the long-enduring population. At the same time, the leadership will accept no responsibility for the deteriorating economy and indeed denies it is anything but flourishing.

Romania has unquestionably come a long way from the agrarian country it was 40 years ago. Its pre-war partners in the granty of Europe was obtained at the cost of grinding rural poverty.

Today, one of Europe's most ambitious housing programmes has provided flats for most Romanians. The country produces its own jet-fighters, fighter aircraft, cars and trucks, machine tools and ships. But the cost of turning out such a wide range of industrial goods has been heavy.

Romania's expanding steel industry—one of the largest users of coal—depends on imported iron ore and coking coal. Few engineering products are saleable in the West.

More than half Romania's exports last year to its leading Western trading partners, the US and Germany, consisted of petroleum products, although oil production has stagnated in recent years at about 10.7m tonnes.

Romanian officials hope that the fall in world oil prices will enable the country to buy more oil in the West and from the Soviet Union to process in its refineries. At least one-third of the 35m tonne refining capacity has been idle for years because of the high price of imported crude.

Grandiose projects, such as the canal between the Danube River and the Black Sea and a canal to link Bucharest with the Danube are also draining resources from the economy.

Meanwhile, the president insists on a further extension of debt within three years. Last year he announced that Romania had repaid half its 1980 debt of \$9.6bn and would reduce it by 30 per cent this year.

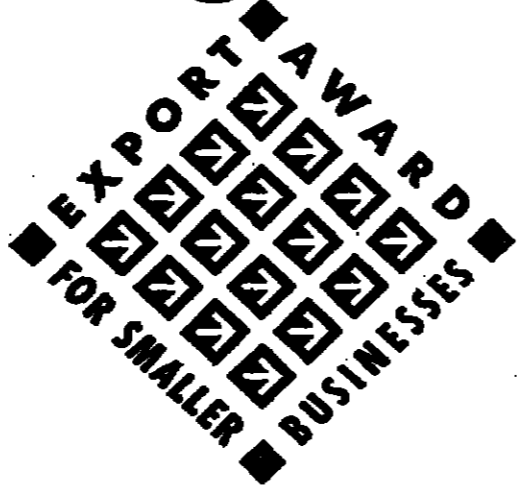
However, the country has also run into cash flow problems. The \$150m loan which Bucharest was given by Western banks last year was on "very harsh terms," bankers admitted. Another loan for the same amount has been held up for months because Romania insists its economic performance justifies better terms.

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EXPORT AWARD FOR SMALLER BUSINESSES

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EUROPEAN NEWS

Italian protests set to force change in building laws

By James Sutton in Rome

THE ITALIAN Government is preparing to make substantial amendments to its new law on illegal construction in the face of continued civil disobedience in Sicily and other parts of southern Italy. In some areas the disobedience has come close to a revolt against the central Government. Despite news of Government intentions to soften the law, the protests continued yesterday with roads being blocked by mobs of demonstrators around Palermo, the Sicilian capital, and other parts of the island. Roads were also blocked in Calabria and in Apulia, at the southern end of the Italian peninsula. The protests, which have often been violent, are against a law which requires people who have carried out illegal construction between 1942 and 1983 to apply for an amnesty and pay a fine. The fine varies with the scale of the offence and the size of the construction. It is reckoned that the number of illegal constructions and alterations affected by the law runs into millions. Whole districts in Italy have been built without planning permission. The Government, alarmed by the intensity of the Sicilian protest, is expected this week to approve a decree which could reduce by a third the fine for many of those who built illegally out of "necessity", rather than out of a desire to speculate. The period for payment of the fine is likely to be extended, and the rule requiring constructions to be earthquake-resistant could be eased. However, these concessions would fall well short of those demanded by the Sicilian protesters, who are backed by local political leaders. The law, passed last year after a troubled parliamentary passage, and many changes, had two aims: to raise revenue for the Treasury and to provide retrospective sanctions for the illegal building. The deadline for declarations under the new law is Monday. Only 150,000 applications had been received by the end of January - on the most optimistic assessment, 10 per cent of what had been hoped for. Several cities in Sicily, notably Agrigento, where protests have been among the most violent, have told the government in Rome there has been no illegal building on the territory under their jurisdiction. Agrigento is notorious throughout Italy for the large and disorderly construction that has taken place around the ancient Greek temple outside the city.

Max Wilkinson examines the inescapable arithmetic of supply and demand Market will enforce oil production cuts

AFTER THE protracted failure of the Organisation of Petroleum Exporting Countries (Opec) to agree a share-out of production cuts, a round of cuts will soon have to be enforced by the market. The arithmetic is inescapable, as Sheikh Ahmed Zaki Yamani, the Saudi Oil Minister, darkly hinted when he said of the next few weeks that "everyone will suffer" as a result of the disunity at the nine-day meeting in Geneva which broke up on Monday. Most comment has focused on the effect on spot oil prices which eased sharply on both sides of the Atlantic. However, the fundamental fact about the oil market over coming months is that supply and demand must balance.

In Europe the largest potential switch from coal to oil would be in the UK, which could theoretically burn perhaps the equivalent of 200,000 to 300,000 additional barrels per day. But this would only be economic if the Government were to sanction a savage extra programme of shutting down coal mines. Quite apart from the political difficulties, this would only make economic sense if the Government were convinced that oil prices would stay in the low teens for a long time. Similar considerations would apply in West Germany. In the US the industrial market might switch from burning natural gas to oil, with a potential for consuming perhaps an extra 1mb/d to 1.5mb/d. But gas producers, already under strong financial pressures, are unlikely to yield their markets without a struggle. Moreover, any large-scale switch from home produced gas to imported oil would put additional strain on the US trade deficit and increase the clamour for an oil import surcharge. It is most unlikely, therefore, that oil producers will be saved in the short run by increases in demand. Similarly, the amount of production which would become uneconomic at \$10 per barrel or less is quite small. Even in the North Slope of Alaska where the cost of oil at the terminals is about \$11 to \$12 per barrel, the big oil companies would almost certainly continue to produce at a loss for some while at least. This is partly because the cost of shutting down production platforms

Table with 3 columns: Country, 1985 quota, Earnings. Rows include Venezuela, Nigeria, Indonesia, Algeria, Libya, Kuwait, Saudi Arabia, Iraq, Iran, Others, Total Opec.

would be very high partly because companies like BP would continue to earn substantial revenues from the oil pipeline even if they ceased to make money on the oil itself, and partly because companies would be hoping for better days to come soon.

In the North Sea one big company's estimated prices would have to fall to \$2 to \$3 per barrel before the expense of shutting down platforms could be justified.

Most analysts expect that the main burden of production cuts will be taken by the large number of small stripper wells in the US, whose extraction costs range from around \$16 per barrel to around \$10 per barrel.

Sheikh Yamani suggested that some 1.8mb/d of this production might be shut in, but other estimates have put the figure at about

half this amount. The extent of these cutbacks and the reductions in marginal output from the North Sea and elsewhere will depend very much on whether operators believe that Opec really is a spent force with the likelihood that oil prices will weaken further and stay depressed. But even if operators take the most pessimistic view, the balance of supply and demand is unlikely to be restored until colder weather starts to increase oil demand next winter - and perhaps not even then. This is because Opec countries, and indeed all oil producers, will be under enormous pressure to keep up production just to maintain cash flow and keep their budgets above water. Last year, at an average price of \$28.40 the Opec countries' export earnings from their self-imposed production quotas totalled about \$150bn, according to the Petroleum Argus. Cheating by members who produced more than their quotas, probably increased this by about 22 per cent. This year, at an average of \$12 a barrel Opec earnings would be halved. At an average of \$20 per barrel total earnings would be down to \$100bn on the legitimate quota. The big worry for Saudi Arabia and its fellow Opec members must therefore be whether the aggressive push for increased market share since last summer may now have produced an irreversible slide in prices. Saudi Arabia would almost certainly have liked prices to stabilise

at around \$18 to \$19 per barrel. Crude oil sold on the "backback" deals linked to the spot price of petroleum products are probably running at \$3 to \$4 per barrel above spot prices, according to the US consultant, Cambridge Energy Research Associates. Since about 80 per cent of Gulf crude is now sold on backback deals, the North Sea Brent spot price of around \$13 per barrel probably gives an unduly depressed picture of prevailing prices. Nevertheless, the Brent spot price and the \$12 per barrel quoted for US crude on the New York Mercantile Exchange probably show the way forward. Big oil companies are already putting strong pressure on producers to ease netback terms. It is therefore difficult to see why prices should not continue to slide substantially in the coming weeks or months. As the "pain threshold" increases, Opec and other oil producers will be under increasing pressure to return to the negotiating table, but it will become harder and harder for each producer to offer the needed cut. The oil price has therefore become inherently unstable. Nobody knows the equilibrium level which would theoretically balance supply and demand, but in any case the major decisions of producers and of consuming countries are strongly political.

The only strong bet in the industry is that prices are unlikely to settle at a quiet level but will continue to swing, perhaps wildly, about an undefined political mean.

Banks likely to improve Polish debt offer

By Alexander Nicol

POLAND'S leading Western bank creditors are likely to agree to reschedule more than three-quarters of the \$800m which falls due to them this year, but have refused to advance new loans until the country receives an endorsement from the International Monetary Fund (IMF).

At a meeting due to be held in Warsaw on April 8, the banks are expected to improve on a previous offer, rejected by Poland, to reschedule 75 per cent of the 1986 repayments, which will fall due under a previous rescheduling accord signed in 1981.

Poland, facing a cash crunch because of poor economic performance last year, asked the banks for about \$250m of new loans, almost the same amount that it repaid late last year as the first instalment of payments under the 1981 agreement.

The banks, although they view Poland favorably because of its adherence to the previous accord, say they cannot contemplate lending new money until the country makes further progress in its application to join the IMF, expected to go through this year, and then plans IMF-endorsed economic adjustments.

Western governments, who are owed the bulk of Poland's \$250m debt, have agreed to reschedule \$2.4bn of 1986 payments. Poland is also seeking fresh credit from them.

Shultz visits Athens to discuss terror and bases

By Andriana Ierodiakonou in Athens

MR GEORGE SHULTZ, the US Secretary of State, arrived in Athens yesterday for two days of talks with the Greek Socialist Government which are expected to touch on Libya's role in international terrorism as well as on the future of the four American military bases here. Mr Shultz is scheduled to meet today with the Greek Foreign Minister, Mr Karellos Papoulias, the architect of the Socialist's pro-Arab foreign policy which has in the past included close ties with Tripoli. Greece has stepped up co-operation with the US and other western countries

EEC starts assembling legal structure for franchising

By Paul Cheseright in Brussels

MR PETER SUTHERLAND, the European Community's commissioner for competition, yesterday put in place the first building blocks of a regulatory structure to fill the legal void in which the franchising industry has been working. In a speech to the International Franchise Association and the European Franchise Federation in Brussels, he made clear that franchising arrangements could conditionally and eventually be freed from the competition regulations. There is a general ban under the Treaty of Rome, setting up the Community, on price fixing, market sharing and company agreements which could distort competition.

But there is no question of franchising suddenly being freed from the normal competition rules. "The Commission must begin to develop its experience in the franchising field by taking a number of individual decisions, before moving on to the preparation of a block exemption regulation," Mr Sutherland said. The need for setting out what is legal in a franchising agreement and what is not became acute in January when the European Court of Justice handed down a judgment in a case involving Pronuptia of France and one of its franchise holders in West Germany. Generally this decision gave

those entering into franchise agreements a great deal of freedom. "We applaud the decision," said Mr Philip Zeidman, general counsel to the International Franchise Association. "But we are concerned because it leaves open questions which cannot be ignored." The Court decided that whether franchise agreements were compatible with the common market depended on what was in them and on the economic context. It said that "strictly necessary" provisions to keep know-how between franchisor and franchisee out of the hands of competitors were not a restriction on competition. Nor were controls to main-

tain the identity of a sales network. But provisions on market sharing would breach the competition rules. For the industry, which accounts for some 10 per cent of Community retail trade and which even in 1983 had total retail sales of over Ecu 35.5bn (\$22.72bn), this is all too vague. Industry federations have been talking among themselves and the Commission has been thinking. For it is the Commission which is going to have to devise the formula for exempting franchise agreements from the competition rules. Mr Sutherland started from the point that exemptions could not contradict the Pronuptia judgment. He then went on to

spell out that exemptions from the competition rules would: not permit resale price maintenance; permit a company granting a franchise the right to demand that the franchisee confine his operations to a particular shop; not allow prohibitions on franchisees buying and selling among each other; work on the basis that the Commission would be notified of franchising agreements and they would be legal if the Commission did not object in a certain time. Putting flesh on these thoughts will take about two years, not least because franchising is a complicated industry.

Swedish growth slows

The Swedish economy grew by 2.3 per cent last year, but the rate of growth slowed in the second half according to the Central Office of Statistics. Kevin Done writes from Stockholm. Gross Domestic Product increased by 2.8 per cent in the first six months compared with 2.0 per cent in the second half of the year.

Danish prices up

The Danish consumer price index increased by 2.1 per cent in February from February last year, according to the Bureau of Statistics. Hilary Barnes writes from Copenhagen. The February index was 147.4 compared with 147.5 in January, and since last June when the index was 147.0 prices have risen by only 0.3 per cent.



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US-LIBYA CONFLICT

Gadafi rises to Reagan's challenge

BY ROGER MATTHEWS, MIDDLE EAST EDITOR

ONE OF the most consistent themes of US policy in the Middle East during President Ronald Reagan's Administration has been the desire to clip the wings of Col Gadafi's regime in Libya.

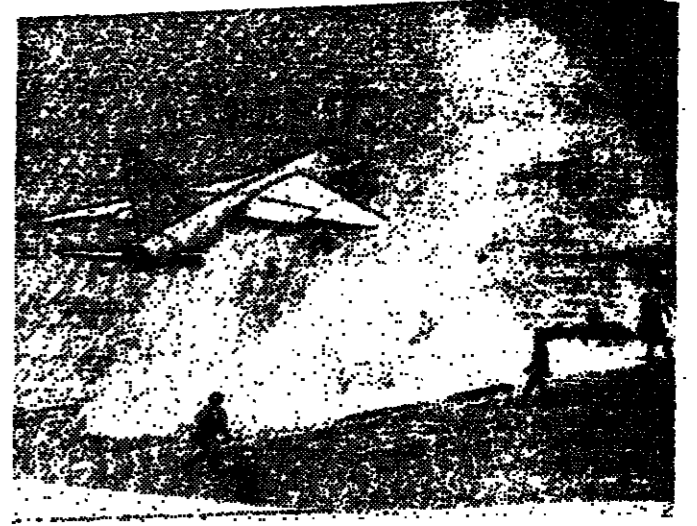
also like to tweak Gadafi's nose. The tweak was duly administered on August 19 soon after the manoeuvres had got underway. Two Libyan Sukhoi 22 fighter bombers, purchased from the Soviet Union, rose to meet US F-14 fighters attached to the aircraft carrier Nimitz.

that his designation of Col Gadafi as International Public Enemy Number One was more than mere rhetoric. But by Christmas there were snipers positioned on the roof of the White House and other exceptional security measures introduced to protect the President and other senior members of the Administration. They had been persuaded that Col Gadafi was bringing the war to Washington and had already dispatched a series of assassination squads.

upon him of the main Arab bulwark against the "aggressive, imperialist, Zionist ambitions" of the US. Those accusations sounded yet more pertinent to some Arab ears when within six months Israel launched its invasion of Lebanon.

tance to radical Arab organisations — to stir up trouble wherever he found an opportunity. American anger at Arab terrorism was again stirred last year when a TWA flight was hijacked to Beirut followed by the seizure of the Archille Lauro cruise liner and culminating in December with the brutal attacks at Rome and Vienna airports.

by additional vessels, was again pressed into action. In the middle of last month a Pentagon spokesman reported that US Navy fighters had "intercepted" Libyan aircraft over the Mediterranean on more than a dozen occasions, although he declined to say whether the incidents had taken place over the Gulf of Sirte. The spokesman added that the Libyan aircraft "gave no indication of hostile intent."



A US jet fighter takes off from the deck of the USS Saratoga during exercises off the coast of Libya. While they may detest the support of an Arab Government from Gadafi regime, their instinctive under external threat from reaction will be to rally to the support of Israel's principal supporter.

Dislike for Libyan leader likely to rally Congress

BY REGINALD DALE, US EDITOR IN WASHINGTON

THE WHITE HOUSE yesterday continued to insist that it had not meant to "provoke or humiliate" Col Muammar Gadafi, the Libyan leader, in sending US forces across the "line of death" in the Libyan-claimed Gulf of Sirte. But there is little doubt that most people in the Administration are overjoyed by his military response.

factor in the past. Among Mr Reagan's January sanctions was a measure making their continued presence in Libya illegal under US law, and there are now believed to be only about 100 of the original 1,500 or so left in the country.

reassert the right of the US to operate in the Gulf of Sirte; to take out the SA-5 missile base if Col Gadafi attacked; and to teach the Libyan leader a lesson. Some US officials also say privately that they are hoping that a dazzling display of US firepower will help to rescue Mr Reagan's 1987 defence budget, currently in serious difficulty on Capitol Hill.

worried about the decline in its military power. The latest action will doubtless prove popular, but it is not likely to produce the wave of euphoria that erupted in 1981, when American suddenly discovered that their armed forces could finally do something right. Now the mood is different and most people believe that the defence build-up has gone far enough.

Another has accused Mr Reagan of "taunting" Colonel Gadafi. But by and large Col Gadafi is so unpopular in the US that most members of Congress are likely to stand behind Mr Reagan, at least for the time being.

The Administration itself is also more united than it has been in past disputes over retaliating against terrorism. Many Middle East experts in Washington have been much less approving. They have warned that the fighting could escalate, that the Soviet Union could be drawn into the confrontation and that Col Gadafi could launch new terrorist acts in Europe, and even in the US itself. They fear that the net result will be to strengthen Col Gadafi in the Arab world.

Kremlin limits confrontation to war of words with Washington

THE LATEST outbreak of hostilities between the US and Libya gives the Soviet Union a timely opportunity to demonstrate its closeness to Tripoli and other Arab allies and to mount fresh attacks on US foreign policy, writes our Moscow correspondent.

Muammar Gadafi. There is no Soviet Union obligation to intervene militarily to help Libya, since the two countries failed to agree on a treaty of friendship and co-operation when Col Gadafi visited Moscow last October for the first time since 1981.

Western analysts estimate that Moscow has supplied Libya with about \$15bn worth of arms in the past 20 years. That year, Soviet military advisers began to crack any of the countries differ over Israel and the Iran-Iraq war.

missiles (the type used in Monday's attack) and unspecified measures of economic co-operation. However, Moscow rallied swiftly to the Libyan cause when President Reagan accused Col Gadafi of involvement in the Vienna and Rome airport terrorist attacks.

One of the public wrangles that have seemed to prevent progress on agreeing a summit date in the past two weeks was Moscow's angry reaction last week to the intrusion of US ships into Black Sea waters claimed by the Soviet Union.

Parallels between the Black Sea incident and events in the Gulf of Sirte will provide Moscow with another opportunity to contrast its self-advertised restraint with US aggression.

Firm rules lacking on territorial waters

BY A. H. HERMANN, LEGAL CORRESPONDENT

THE CONFLICT between the US and Libya is a forceful reminder of the uncertain state of the law of the sea. Though lawyers' views will hardly be sought or considered at the present stage, two questions come to mind: first, how good is Col Gadafi's claim that the Gulf of Sirte is part of Libyan territorial waters, and second, what remedies in international law are open to a country which maintains that its territorial waters have been violated by foreign warships.

a bay if its area is greater than the area of a semi-circle with a diameter equal to the line connecting the natural points of entry of the indentation. On first sight the Gulf of Sirte does not meet this condition. An indentation not satisfying these geometric requirements could still be considered a "historical bay" but here the international law is less certain. According to a 1963 study by the UN Secretariat, a state may claim title to a bay on historical grounds if it can show that it has claimed the bay as inland waters and exercised its authority over it during a considerable period of time, and that other states did not protest against this claim during that time. Libya it seems, cannot claim that other states accepted its claim, not even tacitly.

Tokyo palace, embassy attacked

BY JUREK MARTIN IN TOKYO

JAPAN'S sense of security was given another nasty jolt yesterday afternoon when six home-made rocket bombs were fired, three at the Imperial Palace and the US Embassy in the centre of Tokyo.

Chukaku-ha, or "middle core faction." The police speculated that the bombings were protests against both the 60th anniversary next month of Emperor Hirohito's rule and the Tokyo economic summit early in May.

mentary, its ability to act with impunity and the possibility that it will make or acquire better hardware is causing concern. This is likely to be heightened by the imminence of the summit, for which elaborate security precautions are already being laid, and by the fact that on this occasion the Imperial Palace was attacked.

DENG XIAOPING, the Chinese leader, yesterday made his first public appearance for three months and took the opportunity to deny persistent rumours that he has been ill, though he admitted that he is seriously contemplating retirement.



Deng says he may step down

Aquino spells out political reform

BY SAMUEL SENOREN IN MANILA

PHILIPPINE President Corason Aquino yesterday set the tone on how she intends to run her debt-ridden country for the rest of 1986 and possibly through next year, by declaring an Interim Constitution that abolishes Parliament and gives her absolute power to make laws.

The Swiss Government yesterday said it was freezing all money belonging to Ferdinand Marcos at Swiss banks following attempts to withdraw funds on his behalf. Reuter reports from Bern, a special Philippine Government envoy was expected in the Swiss city today to discuss possible legal ways for Manila to recover the money.

S. Africa hit by more deaths and boycotts

By Jim Jones in Johannesburg

CONFRONTATION between black and white in South Africa escalated yesterday. Police were fired on at the Crossroads squatter camp near Cape Town, large numbers of blacks stayed away from work in the Vaal triangle and a black boycott of white business began in Pretoria.

At Crossroads, Police were fired on as they were investigating the death of an off-duty white policeman who had been stoned and burned under a heap of garbage on the outskirts of the camp. Two hours later, another policeman, thought to have been black, was shot dead as he arrived to investigate a burning vehicle just outside Crossroads.

Many black people remained at home yesterday in townships of the Vaal triangle after failing to heed a call to stay away from work on Monday. According to reports from the townships, people decided to stay at home after being threatened by bands of youths as they returned home from work on Monday evening. Bus services were withdrawn from the townships yesterday morning.

months so "that our people will have a new permanent Constitution and a duly elected Parliament within one year from this proclamation."

She justified the abolition of Parliament to cut out the "cancer in our political system" and return political power to its "proper limits."

Australian coal accord

BY PATRICIA NEWBY IN MELBOURNE

AUSTRALIA'S coalmine owners and unions have reached a basis of agreement which should avert full-scale industrial action by the militant mining unions and end the strikes and bans which have plagued the industry for the past two months.

The Interim Constitution lifts basic and controversial features of the Constitution which deposed President Ferdinand Marcos dictated in 1973, such as the courts and local governments.

The declaration of the provisional Government and the Interim Constitution has been welcomed by the business sector as a means to dismantle institutional and legal barriers blocking speedy national recovery.

The deal is believed to offer a pay rise and improvements in the workers' conditions, including extra sick leave. It accepted by all parties, the deal will be put to the industry's arbitration body, the Coal Industry Tribunal, next month for formal approval.

Advertisement for ABN Bank (Algemene Bank Nederland N.V.) featuring U.S. \$150,000,000 8 1/2% Bonds due 1991. Lists various international branches and contact information.

By Robert Thomson in Peking. DENG XIAOPING, the Chinese leader, yesterday made his first public appearance for three months and took the opportunity to deny persistent rumours that he has been ill, though he admitted that he is seriously contemplating retirement.

The marriage of Imperial and United Biscuits.

We have the OFT's permission.

(Now all we need is your blessing)

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MAJOR INTERNATIONAL
BRANDED GOODS COMPANY
(United Imperial)

LONG TERM PROFIT
BUILDING POLICY

DRIVE FOR NEW
PRODUCT DEVELOPMENT

EXPERTISE IN
GROWING STRONG BRANDS

COMMITMENT TO
CAPITAL INVESTMENT

INNOVATIVE
NEW PRODUCTS

LEADING UK
MARKET POSITION

PENETRATION OF
OVERSEAS MARKETS

EFFECTIVE
COMPETITOR WITH
MULTI-NATIONALS

HIGHLY REWARDING
PROFITS

Imperial and United Biscuits are made for each other.

A marriage would mean a totally logical pooling of resources, providing them with the immediate ability to compete in international markets. Successfully and profitably.

Hanson Trust, on the other hand, would never prove a suitable partner, despite its aggressive courtship.

Hanson's attitude to business is completely different.

Its way is to buy profit, through acquisition.

The Imperial and United Biscuits way is to earn it in the market place, with famous brands doing famously, and looking forward to sustained profit growth.

Hanson has been married many

times before. And some of its partners have been left at home, gathering dust.

Which isn't surprising when you consider Hanson's miserly record for capital investment.

In 1985, Hanson invested just £59 million in its companies - a mere 2 1/4% of sales turnover. By contrast, Imperial ploughed back £193 million in capital investment, a sum that represents twice Hanson's rate of investment.

Support the Imperial and United Biscuits marriage.

And you too can look forward to a happy and prosperous future.



The sources for the information contained in this advertisement are set out or referred to in the letter from the Chairman, Imperial Group plc to shareholders dated 13th February 1986. The directors of Imperial Group plc (including those who have delegated detailed supervision of this advertisement) have taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate. The directors accept responsibility accordingly.

AMERICAN NEWS

Brazil brightens bankers' gloom

BY PETER MONTAGNON IN SAN JOSE, COSTA RICA

FLUSHED WITH the successful launch last month of a series of major economic reforms...

Yesterday its delegation, headed by Mr Jose Sayad, the Planning Minister, took the unusual step of hiring San Jose's National Theatre...

To the bankers, the good news is a marked relief from the gloom to which they have been subjected by developments in Mexico over the past few months...

Yet the contrast between the performance of Mexico and Brazil, Latin America's two

Commercial banks have difficulty understanding "the very restrictive attitudes" of expert credit agencies...

largest debtors, has also made it unusually hard to draw any general conclusions over the direct effect of the debt problem...

Brazil's achievements have come as a great comfort to its creditors because the country has achieved a hitherto elusive goal, servicing foreign debt while still running a strong growth rate...

kindled awareness among Latin governments of the potential for "self-help" economic adjustment programmes...

In a quieter way, some other debtors are also basking in an easing of economic strains caused by developments in the world economy...

Oil prices have fallen, interest rates are down, and at long last the copper price, so critical to its export performance...

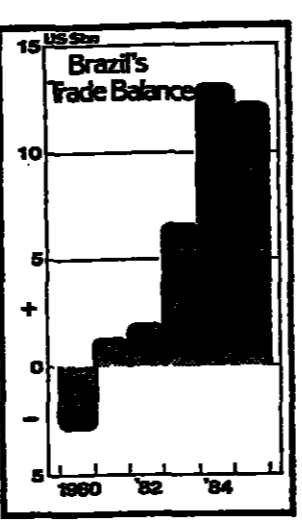
Similarly Costa Rica, whose \$4.5bn foreign debt makes it one of the most heavily borrowed countries in the world...

bleak, budgets are being squeezed by falling returns from lower oil prices and the burden of meeting interest payments on foreign debt is growing...

Argentina also faces a sharply higher balance of payments deficit because of falling grain prices...

This divergence in economic performance has reconformed the view of commercial bank lenders that there is no point in attempting global solutions...

Some Inter-American Bank officials argue privately that Brazil has now shown itself to be one of the few Latin American countries capable of growing its way out of the debt problem...



Brazil's Trade Balance in US\$ bn. The chart shows a deficit of approximately \$2.5 billion in 1980, a surplus of \$1.5 billion in 1981, and a surplus of \$1.0 billion in 1982. It shows a deficit of \$0.5 billion in 1983 and a surplus of \$1.5 billion in 1984.

Pressure mounts on Haiti regime

By Counts James in Kingston

PRESSURE is mounting on Haiti's military regime, six weeks after it took over the country following the flight of Mr Jean-Claude Duvalier...

Fifteen thousand people marched through the streets of Port au Prince, the capital, on Monday calling for the removal of the military regime...

The march followed several days of simmering unrest in which seven people were killed after a clash between soldiers and drivers...

Honduras border crossing prompts \$20m US aid

BY REGINALD DALE, US EDITOR IN WASHINGTON

PRESIDENT Ronald Reagan is to rush \$20m (\$13.5m) in emergency military aid to Honduras, in response to a large-scale cross-border incursion by Nicaraguan Sandinista forces...

The White House said that the Honduran Government had requested the aid on Monday after a Nicaraguan force, reported to number up to 1,500, crossed into Honduras...

Mr Reagan's action came as the Senate prepared to open debate on his request for \$100m for the Contras, most of it in military aid...

the largest of more than 100 Nicaraguan border crossings into Honduras since the Contras started using the country as a base of operations four years ago...

The battle was reported to have continued throughout Monday, with the Sandinistas supporting their units in Honduras with heavy artillery and rocket fire...

Tim Coome adds from Managua: A US embassy spokesman in Tegucigalpa said yesterday that two battalions of Nicaraguan troops crossed the Honduran border at the weekend and attacked a Contra training camp at Las Vegas...

NOTICE OF REDEMPTION To the Holders of ENTE NAZIONALE IDROCARBURI

E. N. I. (National Hydrocarbons Authority) 6% Sinking Fund Debentures due November 1, 1986

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Sinking Fund for the Debentures of the above-described issue, Morgan Guaranty Trust Company of New York, as Fiscal Agent, has selected by lot for redemption on May 1, 1986...

Table with 2 columns: Outstanding Debentures of U.S. \$1,000 Each of Prefix "M" and Also Debentures of U.S. \$1,000 Each of Prefix "M".

On May 1, 1986, there will become due and payable upon each Debenture the principal amount thereof, in such coin or currency of the United States of America as on said date is legal tender...

Debentures surrendered for redemption should have attached all unmatured coupons appurtenant thereto. Coupons due May 1, 1986 should be detached and collected in the usual manner...

ENTE NAZIONALE IDROCARBURI By: MORGAN GUARANTY TRUST COMPANY OF NEW YORK, Fiscal Agent

March 26, 1986 The following Debentures previously called for redemption have not yet been presented for payment:

DEBENTURES OF U.S. \$1,000 EACH M1986 2898 4298 4798 7642 7644 7699 7695 7735 9698 10389 10391 12698 14898 19798

Under the Interest and Dividend Tax Compliance Act of 1983, we may be required to withhold 20% of any gross payments made within the United States to certain holders who fail to provide us with...

NOTICE OF REDEMPTION To the Holders of South Carolina Electric & Gas Finance N.V.

15 1/2% Guaranteed Notes Due 1989

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Indenture dated as of April 15, 1982 among South Carolina Electric & Gas Finance N.V., a Netherlands Antilles corporation...

The Chase Manhattan Bank, N.A. Corporate Bond Redemptions 1 New York Plaza, 14th Floor New York, New York 10081

Coupons which shall mature on, or shall have matured prior to, said Redemption Date should be detached, and surrendered for payment in the usual manner.

SOUTH CAROLINA ELECTRIC & GAS FINANCE N.V. By: THE CHASE MANHATTAN BANK (National Association) as Trustee

Moscow 'continues to build military power' claims US

THE SOVIET UNION, while continuing to develop more lethal nuclear missiles, has embarked on a massive program to protect its land-based arsenal, the US Defense Department said yesterday.

Moscow is also said to be attempting to attain parity with the US in the development of cruise missiles, AP reports from Washington.

The Soviet Union has a crude but workable laser weapon capable of blinding low-orbit reconnaissance satellites and it is continuing to pour the equivalent of billions of dollars into modernisation of their conventional weapons...

The annual study, the fifth prepared by the Pentagon, was described as an unclassified version of defence intelligence agency reports showing what the US has described as a relentless Soviet military build-up.

SECURITIES TRUST OF SCOTLAND p.l.c.

(Incorporated in Scotland under the Companies Acts 1962 to 1986)

Placing of £10,000,000 12 per cent Debenture Stock 2013 at 117.230 per cent

Application has been made to the Council of The Stock Exchange for the whole of the above Stock to be admitted to the Official List.

In accordance with the requirements of the Council of The Stock Exchange £1,000,000 of the Stock is available in the market on the date of publication of this advertisement.

Listing Particulars relating to the Stock will be circulated in the Extra Statistical Services and copies may be obtained during normal business hours on any weekday (Saturdays and Public Holidays excepted) up to and including 9th April, 1986 from:

Securities Trust of Scotland p.l.c. 29 Charlotte Square Edinburgh EH2 4HA

BASE LENDING RATES

Table of base lending rates for various banks and currencies, including ABN Bank, Citibank, and others, with rates ranging from 11 1/2% to 15 1/2%.

Argentines strike again over economic policy

THOUSANDS of Argentine workers staged a mass rally yesterday in central Buenos Aires in support of a 10-hour general strike called by the General Confederation of Labour (CGT) against the Government's IMF-backed economic policy.

The strike - the fifth to be organised since Mr Raul Alfonsin was sworn in as President in December, 1983 - began at noon local time with walkouts in factories in the capital's main industrial belt and in the traditionally militant northern city of Cordoba.

Skedaddle transport services continued to ferry CGT supporters from the poor suburbs to the demonstration in open defiance of government claims that the strike cause was anti-democratic and damaging to the nation's economic development.

Officials claimed yesterday that the strike was costing the country some \$150m in lost productivity alone.

Toronto boy wins record \$2.1m insurance award

THE Canadian Medical profession's liability insurance fund has agreed to pay \$2.1m (\$1m) to a severely brain-damaged Toronto boy in the largest settlement of a medical malpractice suit in Canada.

The settlement is the latest in a series of big damages awards which have recently drawn Canada into the growing uproar over spiralling liability insurance premiums in the US.

The Ontario government appointed a task force earlier this year to examine liability insurance after complaints from municipalities, day care centres, sports teams and professional groups that liability policies, which have become prohibitively expensive.

The most recent case involves a six-year-old boy who was left blind and severely brain-damaged at birth after a difficult forceps delivery.

In Muscat our luxury is rivalled only by our spectacular setting.

Advertisement for Muscat Inter-Continental Hotel, featuring a large image of the hotel building and text describing its luxury and location.

US claims growth in imports from Hong Kong

THE psychological warfare being waged by the US against leading Asian exporters over its bilateral trade deficits across the region was reflected yesterday when the US released trade statistics suggesting Hong Kong's exports to the US grew in 1985. Hong Kong has claimed that its exports fell.

UK groups set to help build UAE aluminium smelter

A CONSORTIUM of British, US and West German companies has negotiated a \$650m (£433m) deal for the construction of a second aluminium smelter in the United Arab Emirates.

NEC to sue Texas Instruments in Japan

NEC, one of Japan's leading electronics companies, has launched an unprecedented counter-attack on Texas Instruments, the US electronics company that is suing the Japanese and South Korean companies for patent infringement.

OIL PRICE FALL FORCES RETHINK

Brazil reviews countertrade policy

BY ROBERT GRAHAM IN RIO DE JANEIRO

BRAZIL is having to review and reduce countertrade deals arranged for this year as a result of the fall in the price of oil.



Mr Beltrao: strong defender of countertrade

Saab takes prop-fan stake

BY MICHAEL DONNE AND DAVID BROWN

BOEING yesterday brought Saab-Scania of Sweden into its team of companies working with it on a risk-sharing basis in developing the new J77 prop-fan aircraft for service in 1992.

step in the group's strategy to reduce dependence on domestic military aircraft contracts.

strongly defends these arrangements. Such trade, he claims, has permitted Brazilian products to break into markets traditionally occupied by industrialised nations.

Brazil buys 50,000 b/d of the trade is entirely covered by the Chinese purchase of iron ore and aluminium.

Textile wages 'low' in Portugal

By Anthony Moreton

WAGE RATES for textile workers in Portugal, a member of the EEC since January 1, are lower than those in 13 Third World countries.

Mitsubishi takes stake in Guinness Peat Aviation

BY OUR AEROSPACE CORRESPONDENT

THE Mitsubishi Corporation and Mitsubishi Trust and Banking Corporation of Japan will take a substantial financial stake in the Irish-based Guinness Peat Aviation Group, one of the world's major aircraft leasing companies.

Tokyo industrial centre predicted to open in 1987

By Our Tokyo Staff

The Japan-EEC Industrial Cooperation Centre should be ready to open its doors by the middle of next year, EEC officials said in Tokyo yesterday.

The centre will be aimed at promoting the transfer of Japanese technology to EEC countries and increasing the amount of direct European investment in Japan.

Egypt launches publicity drive to boost tourism

BY TONY WALKER IN CAIRO

EGYPT has launched a publicity drive in the US and Europe to counter the harmful effects on tourism caused by recent violence in the area, including the hijacking of an Egypt-Air Boeing in which 57 people died and the police riots in which two hotels were destroyed.

"A SUCCESSFUL YEAR ACHIEVED AGAINST A BACKGROUND OF CONTINUING UNCERTAINTY."

Extracts from the Statement by the Chairman, Sir Eric Yarrow MBE DL

THE YEAR'S RESULTS "The profit before taxation of the Bank, its Subsidiaries and Associate for the year ended 31st December 1985 was £29,502m. This compares with £24,233m for the previous year - an increase of 21.7% - and represents a very satisfactory result.



CLIMATE FOR BUSINESS "Although our own figures indicate a successful year they have been achieved against a background of continuing uncertainty in many areas of business activity in Scotland."

SYSTEMS AND DEVELOPMENTS "Although automation of our routine procedures has been a part of banking for many years now, development of our electronic systems continues at a great pace.

THE FUTURE "As members of the Midland Bank Group we have a tremendous advantage over our competitors in being able to provide a comprehensive and widespread Banking Service throughout the UK."

SUMMARY OF RESULTS table with columns for Year Ended, 31st Dec 1985, and 31st Dec 1984. Rows include Trading Profit, Interest on Subordinated Loan Capital, Profit before Taxation, Taxation, Profit after Taxation, Minority Interest, Profit attributable to Ordinary Shareholders, and Total Assets.

Clydesdale Bank

Head Office: 30 St. Vincent Place, Glasgow G1 2HL.

NOTICE TO HOLDERS OF BEATRICE FOODS OVERSEAS FINANCE N.V. 8 1/2% Convertible Subordinated Guaranteed Debentures Due 1991

TECHNOLOGY

BRITAIN'S clearing banks are in the final stages of approving a multi-million pound project which should establish nationwide shopping without cash or cheques in the UK within three years.

Plastic cards, either credit or debit, will take the place of traditional means of payment; powerful automatic devices on retailers' counter-tops will capture trading details and send them electronically to new, purpose-built processing centres where computers will replace conventional, paper-based clearing methods. Funds will move virtually instantaneously from a customer's bank account to that of the retailer's.

Plans to establish such a revolutionary system for electronic funds transfer at the point of sale—eft/pos—is the ugly acronym—have been under consideration for at least a decade in the UK, but have been hindered by a powerful combination of commercial, political and technical objections.

Just over a year ago, the banks, with the encouragement of the Retail Consortium, decided they could wait no longer and announced they would work towards a nationwide eft/pos system.

Since then, the development organisation they established has been wrestling with the problems involved in creating a novel payments service which will profoundly influence British society.

The worst of these problems seem now to have been overcome, and the banks' plan to turn Britain into a "cashless" society is going ahead.

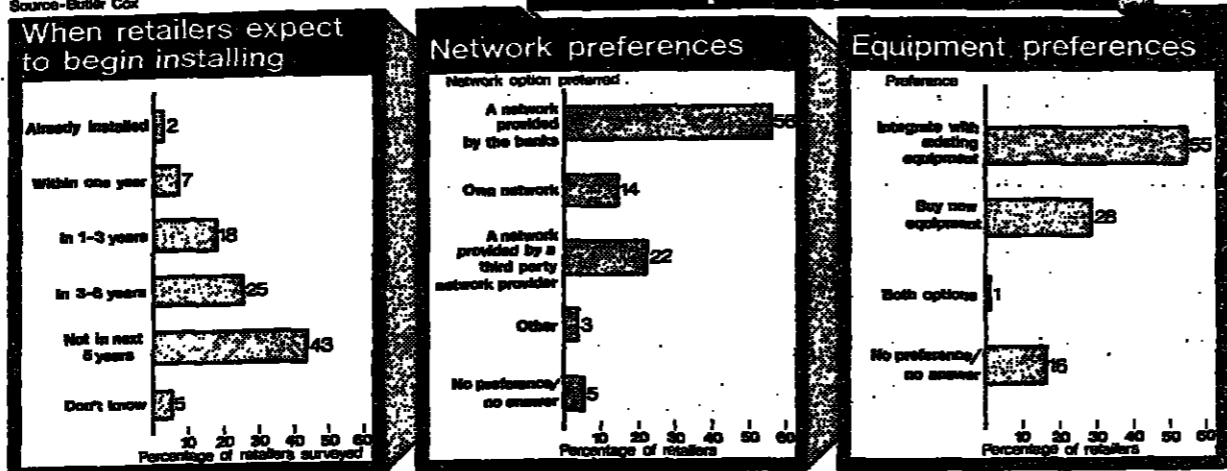
Mr Douglas MacCallum, chief executive of EFT-POS, the development organisation set up by the London and Scottish clearing banks to design and implement the system, is confident that prototypes will be running in three towns by Spring, 1988—Southampton, the site of an earlier but abortive eft/pos plan is a certainty and towns of a similar size are now being sought in the Midlands and Scotland.

The three prototypes eft/pos systems will mean eventually the installation of some 30,000 computer terminals on retailers' counter-tops—about a tenth the number needed to create a nationwide system.

This good progress cannot hide the fact that for many retailers and credit card companies, the move to cashless shopping now cannot come quickly enough. Every day that passes, they believe, puts them at a potentially greater trading disadvantage to more aggressive competitors who, they fear, could steal their customers by offering cheaper, better services through new technology.

They are pressing ahead with

Source: Butler Cox



End to paper chase for British shoppers

Alan Cane on why the quick introduction of a nationwide cashless shopping network has become a priority

schemes of their own which, many are worried, could scupper the national system altogether.

Over the past year, the national scheme has nevertheless made solid advances:

● EFT-POS has produced a "business service specification," a detailed blueprint of what the system should do and how it should do it, and it is this which is now awaiting the banks' final approval.

● EFT-POS will become the clearing company for all electronic transactions, one of the first clearing companies to be established under the terms of the 1984 Child committee which reviewed the structure of payment clearing services in the UK.

Its recommendations opened the clearing door to any financial institution meeting "open and explicit criteria" of financial probity and business volume.

The clearing centre, where large computers will be used to switch payments messages

between shops, their bank accounts and the bank accounts of their customers, is likely to be in Woking.

A site has already been chosen. IBM is expected to provide the hardware. The computer power required is going to be substantial.

Assuming only 100 transactions a day for each of the 300,000 terminals nationwide, a system capable of handling reliably and at low cost 30m transactions daily or almost 11bn annually, will have to be created. It will mean several clearing computer centres, linked through PacketSwitch Stream, British Telecom's high speed service for messages created by computer systems.

● Preliminary specifications for a range of standard counter-top terminals to be used for eft/pos

have been drawn up and will be released to suppliers in the next few weeks.

The eft/pos project is the most ambitious, complicated and risky technological venture ever undertaken by the clearing banks in one fell swoop. Costs to be shared among the banks involved could amount to as much as £500m for a nationwide initiative. There is little prospect of a fast return on investment.

"All the evidence is that there will be no quick pay back for the banks," Mr Bert Morris, director of management services for National Westminster Bank says. He maintains, however, that NatWest, in common with the other clearing banks and the credit card companies, is totally committed to a national eft/pos system because of the potential

advantages. These include a significant reduction in the costs of handling cheques and paper vouchers; a defence against cheque and credit card fraud and a platform from which to launch new and competitive services to business and personal customers.

Mr Harley Atkinson, EFT-POS development manager, argues that due attention has been paid to the risks involved: "The national eft/pos service will ultimately be very large," he said. "We are adopting a design approach to cope with this."

"The system will be introduced in a step-by-step manner starting with the three, limited pilot systems; in this way the financial and technological risk can be minimised at every stage in the build-up to full-scale

transactions made through that terminal. There are worries about the security of the transmission lines; so all message traffic will be encrypted—disguised by secret computer codes. A more serious concern is the possibility of counterfeit terminals; each terminal will have to be able to identify itself to the computer centre when it "calls in."

Plans are that the system should be able to accept all recognised credit and debit cards, although some of the banks are wary of allowing the building societies—now

national eft/pos." But with so much at stake, it is hardly surprising that the history of eft/pos in Britain has been littered with false starts, wrong turnings and fierce inter-terrace warfare.

There is a nervous scepticism among banks, credit card companies and retailers alike, about the ability of EFT-POS to establish a satisfactory system within a reasonable timescale.

They know that EFT-POS has to complete at least 17 separate and major projects before 1988 if it is to meet the planned schedule. Which is why some are putting alternative plans into effect with an alacrity which is worrying both their banking colleagues and their retailer customers.

Their anxieties are focused on Barclays, Britain's biggest bank and Barclaycard, its credit card company, part of the world-wide Visa organisation.

Yesterday's announcement by Barclaycard, that its planned experiment involving 1,000 ter-

minals in a North London shopping area is to be expanded to 5,000 terminals in co-operation with the Joint Credit Card Company which runs the Access operation on behalf of National Westminster, Midland and Lloyds, and that the bank plan to establish a new company to coordinate their eft/pos activities, will have done nothing to quiet their fears.

However, it must be strongly emphasised that Barclays and Barclaycard are in words and deed completely behind national eft/pos. Barclays is putting up some 23 per cent of the cost of the scheme; it has promised that if the terminals are incompatible with those of national eft/pos, it will abandon them at the appropriate time.

This week, Mr Peter Ellwood, chief executive of Barclaycard said: "We are not here to Except the national scheme."

Nevertheless, the fear is that commercial pressures may force Barclays and Barclaycard to develop its own system in such a way as to make the national scheme seem less attractive to its prospective customers—the retailers and the public.

Barclays acknowledges that fear. Put bluntly, it supports national eft/pos all the way, but refuses to be caught in the market with its trousers down.

What Barclays fears is a threat to its pre-eminent position in UK banking. Barclaycard, in turn, fears a pre-emptive strike by another "merchant acquirer," an organisation—like Barclaycard itself—able to interpose itself between the card issuing company (which in Barclays case is Visa) and the retailer.

If such an organisation could offer retailers, through electronic technology, a better deal in the way of convenience and a lower merchant service charge—say half a per cent off—it would be in a powerful position to siphon off a good proportion of Barclaycard's retailer base.

The obvious threat is one or more of the aggressive US financial institutions. Citibank, for example, which has already applied to join the UK clearing banks committee—is perhaps the most adventurous user of new technology in the banking world and is a merchant acquirer for both Visa and Mastercard in the US.

Over the past year or so, two significant changes in attitude to eft/pos give credence to Barclays' anxieties.

● Retailers, who traditionally have grudgingly accepted that eft/pos might be a good thing if somebody else pays for it, are now positively clamouring for an electronic end to their paperwork.

And through the use of automated cash dispensers, automated teller machines and the

JEWEL IN THE GROUND
CONSTRUCTION EQUIPMENT

BANKS CALL TUNE ON DESIGN AND MANAGEMENT OF SYSTEM

THE national eft/pos system now taking shape represents a victory for the banks over IBM and British Telecom, which had expected to be able to control the design and management of the network.

The two electronic giants remain favoured suppliers for the network and supporting computers which will link all the retailers' terminals to the computer centres, but on the banks' terms rather than their own.

Plans for a massive network of IBM minicomputers distributed around the country, for example, have been abandoned.

The most likely structure is a series of medium-sized computer centres around the country, each able to process eft/pos transactions from the counter-tops in its immediate vicinity.

Retailer terminals are likely to be sophisticated devices able to work either on-line, that is connected to the computer centre, or off-line where the information is stored in the terminal memory for transmission to the computer centre at a later date.

The banks' view is that there must be a limit to the value of transaction com-

puted on-line. Telephone line charges are high enough to make a nonsense of using the service for every purchase.

So it is likely that there will be a "floor limit"—perhaps £20 or so—below which the transaction will be handled entirely off-line.

Whether the floor limit will be set by the banks or by the retailers has yet to be decided.

Each terminal will have to be "sponsored" by a bank which is a member of the clearing company. It will then accept responsibility for

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Amateur Photographer—T90 Camera Test.

Canon T90

Canon—Manufacturers of Cameras, Videos, Calculators, Copiers, Computers, Facsimile, Typewriters and Micrographics.

MORE SUCCESS. AND A FIRM FOUNDATION FOR THE FUTURE.

RECORD ASSETS
Assets exceed £1.5 billion - up by 19.25%

RECORD RECEIPTS
Receipts exceeded £1 billion.

RECORD RESERVES
£13 million transferred to reserves. Now up to £86m (or 4.41% of assets).

RECORD COMMITMENT TO PROGRESS
streamline technology to help meet the demands of the future.

Another record-breaking year for Northern Rock was reported by Mr. Fuller Osborn, CBE, the chairman, speaking at the society's annual general meeting on 25 March 1988 in Newcastle upon Tyne. "If change provides the backcloth for the year under review," he said, "then another excellent all round performance by Northern Rock provides - I am pleased to be able to say - a reassuring constant."

Highlights emerging were:

HIGH GROWTH RATE Total assets grew by 19.25 per cent to a record £1.5 billion, a growth rate among the highest of any of the country's major societies.

STRENGTH OF RESERVES A record £13 million was transferred to reserves, now up to £86 million - 4.41 per cent of assets. A firm, competitive base with which to meet the challenges of 1987 and beyond.

RECORD RECEIPTS Investments placed with the Society topped £1 billion for the first time.

MORTGAGE SUCCESS Over 15,000 new mortgages were agreed, totalling £322 million, and 46 per cent of borrowers were first-time buyers.

RECORD COMMITMENT TO PROGRESS
A 3 year programme has been embarked upon to extend the use of new technology, to help streamline customer service, to further improve efficiency and to prepare resource and capacity for future growth.

In conclusion, Mr. Osborn said, "We are confident that the exceptional challenges of the future now on the horizon can be matched by a strong and forward-looking Northern Rock."

NR
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BUILDING SOCIETY
People with your interest at heart.

A Member of the Building Societies Association.
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<p>United Biscuits' shareholders have, over the last 5 years, seen their dividends grow by 15.2% p.a.</p>	<p>Hanson Trust shareholders have, over the last 5 years, seen their dividends grow by 28.7% p.a.</p>

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<p>United Biscuits would be buying a company 2½ times its own size.</p>	<p>Hanson Trust would be buying a company smaller than itself.</p>
<p>£1,000 invested in United Biscuits in 1980 would now be worth £3,100.</p>	<p>£1,000 invested in Hanson Trust in 1980 would now be worth £15,300.</p>

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H A N S O N T R U S T

CONTINUING GROWTH FROM BASIC BUSINESSES.
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THE MANAGEMENT PAGE

York International

A breath of fresh air

Andrew Baxter explains the split from its parent of the US air conditioning group

ONE OF the world's oldest refrigeration and air conditioning businesses is embarking on a new phase of its 101-year history under the leadership of a mercurial "corporate turn-around" expert who started his first business at the tender age of 14.

Shareholders in Borg-Warner, the US vehicle parts, chemicals and plastics group, will in the next few days be receiving 8.7m shares in York International, a new company emerging from the spin-off of Borg's troubled air conditioning and refrigeration business.

This will put the final touches on a deal which creates the world's largest independent company in a highly competitive market sector. York, which is to be quoted on the New York Stock Exchange, employs 6,000 and had revenues last year of \$637m. It is being given away to Borg shareholders in the belief that it can function better as an independent company than as part of a conglomerate.

Upheaval

The spin-off is the latest example of a process that has become popular in the US as industry restructures, but is relatively rare in Europe. An advantage of such an arrangement in the US is that it is tax-free for the parent company and its shareholders.

However, the York deal is unusual in that it includes the installation, as chairman and chief executive, of an experienced company doctor, Stanley Hiller. "That York should now feel the need to turn to Hiller, a 61-year-old Californian who sees himself as a practitioner of corporate R and R — repair and rebuild — indicates how Borg found itself unable to manage its offshoot effectively as York's markets underwent a radical upheaval.

York, founded in 1874, produced its first refrigeration machine in 1885, spreading later into air conditioning, which shares much of the basic technology. By 1956, when Borg bought York as an attempt to reduce its dependence on the motor industry, York was already a household name in the many industries it served.

By 1985 the company was involved in everything from energy management systems for

large buildings such as the World Trade Centre in New York to air conditioning equipment for submarines and refrigeration units for the food processing industry.

The early years of Borg's tenure coincided with heavy workloads on big buildings in the US and overseas, which is where "the real money" was, according to Robert Vile, an analyst with the Pennsylvania-based merchant bank Widmann, Blee. But declining oil revenues in the Middle East and reduced investment by the US energy and chemical industries had an adverse impact in the 1980s.

Keeping a firm grip on all York's products, markets and wide range of competitors became increasingly difficult for Borg, given the company's many other interests. "We tried to do too much. We never controlled any single part of it," says Borg now.

This might not have mattered too much if York had been producing big profits. But in the 1980s, the York business being spun off (see illustration) plunged from net earnings of \$20m in 1981 to losses of \$6.2m in 1983 and \$1.2m last year.

It was in early 1985 that Hiller came into the picture, after a business career that began in the unlikely setting of a barn behind his Oakland home. A penchant for tinkering with toy cars led him to begin mass production there of miniature racing cars or "spindies" and by 17 he was running a business with 20 employees and annual sales of \$100,000.

Then he sold out, and at the age of 18 left college early to build a pioneering type of helicopter with two blades rotating in opposite directions for extra stability. Hiller Aircraft went on to become one of the world's largest helicopter makers before Hiller sold it to Fairchild in 1964.

Other miscellaneous ventures followed, including an attempt to take over Lockheed Aircraft, until in 1971 Hiller returned to the limelight in the new role of company doctor. He reasoned that after solving problems in his own business he could do the same elsewhere.

York's present position is tailor-made for the Hiller treatment. Since 1972, when he took

over G. Murphy Industries and revived its Reed Tool oil drilling bit company—in time for the 1974 drilling boom—Hiller has been taking over troubled companies and nursing them back to health, focusing particularly on older businesses whose markets have changed.

Hiller's approach is to move himself and members of his team into a company's headquarters, typically staying two to four years before "passing the baton" to the company's own executives. The starting point is to identify the company's strengths—Hiller says that businesses he takes on are normally not in as bad a shape as people believe.

At Murphy, for example, Reed Tool was being "crushed under a conglomeration of unrelated entities" including everything from explosives to artificial abrasives.

Then that part of the business worth saving is revived, with a permutation of changes in management or labour practices, cost-cutting or a redefined marketing strategy. In Reed's case the focus was a long-term premium-product strategy, while at Bekins, a California-based moving and storage concern, Hiller instituted a management shake-up, brought in incentive payments, and consolidated facilities.

Hiller says that York is in a "unique situation, and—you would have to say honestly—a difficult one." But along with Borg and York's line managers, he believes that creating a new company in a spin-off from the old parent is "the most efficient way you can go about R & R."

Morale

In the first place there are immediate benefits from bringing top decision-making back to Pennsylvania from Chicago. Hiller has great respect for Borg-Warner, but says that when York's markets changed, the ability to make crucial decisions promptly was not there.

Secondly, the spin-off, rather than a piecemeal sale, preserves York's integrated structure, broadly divided into two divisions covering very large systems and smaller products.

Finally, by creating a new company from a spin-off, the Hiller team is replacing only the corporate functions carried out

by Borg, and thus is giving a fillip to line management's morale in an inevitably worrying period. The creation, meanwhile, of a new board from scratch allows the Hiller team to be selective as it matches outside board members' skills to internal needs.

The York board, which has already had its first meeting, includes James Beré and James Gavin, Borg's chairman and vice-chairman respectively. They have been picked, says Hiller, for what they can offer York rather than as representatives of Borg. Another board member is S. Donley Riteby, chairman of California retailer Lucky Stores and chosen for his marketing savvy.

Hiller accepts that none of this guarantees success, but he already appears to have a clear idea of his plans for York. Starting with the good points, he cites the "sound base" provided by the company's product reputation, and assets that are not on the balance sheet such as its people and its joint venture agreements.

However, it is a mature business, and Hiller says that, while there are technical innovations, "you don't have a leg-up from technology that you get in electronics." The key to success is to produce a better product at a lower cost than competitors.

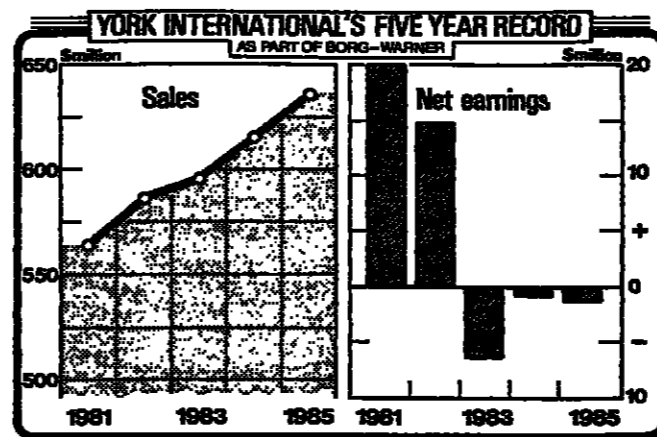
So in this respect the Hiller treatment will be similar to his approach elsewhere. The major problem area is one plant—the sprawling 1.4m square feet site at York itself, where nearly half of the company's employees work. This is now operating at 50 per cent capacity, and Hiller says: "There has to be some belt-tightening. The medicine is going to be bitter."

William McSherry, a member of the Hiller team for five years and York's vice-president of plans and programmes, says cost-cutting efforts at the plant, which is really three separate facilities, would focus on consolidation into smaller square footages, reducing the need for products to be transported from one end of the site to another. The site's structure also caused some job duplication, and 40 people had already been made redundant, with perhaps double that number to come.

Elsewhere in the company, there would be improvements in



Stanley Hiller: moves in with his team for up to four years



efficiency, says McSherry, but on a smaller scale.

The problems in Pennsylvania have dragged down York's overall performance in the US. In contrast, profitability in Europe has been considerably higher, with a return on investment of nearly 20 per cent last year. Jack Walker, York's UK-based managing director of the distribution and industrial refrigeration businesses, says the European business "has got its marketing act together."

Its main factory at Basildon, Essex, has a high order backlog and has been at the forefront of developing energy-saving products which, along with the replacement market for air conditioning equipment, are seen by Walker as "two substantial areas of opportunity" where York has been moving fast. No tremendous growth, however, is seen in the industrial refrigeration business or in air conditioning for new buildings.

As for earnings, Hiller makes no promises except to say that

1986 will be a year of stabilisation. After that, much will depend on how well York responds to the Hiller treatment. The company has the good fortune of starting with a cleaned-up balance sheet and has already arranged a \$60m credit line to help finance product development — an area where Hiller is hoping to get more from every dollar spent.

Furthermore, the Hiller group has a significant financial incentive to get things right. While Borg shareholders are receiving one York share for every 10 held, Hiller and his associates are paying an eventual \$28.5m for an equity stake of 20 per cent in the new company, assuming the exercise of options and warrants.

This stake, along with others held by employees, outside investors supporting the Hiller team, and a 9 per cent holding in the hands of Robert Bosch, the West German engineering group, will give Hiller effective control as he implements his plan.

Training for a guaranteed job

Alan Pike reports on a computer school

THE London Computer and Electronics School sounds as though it could be one of those slightly dubious organisations which make rash promises to recruit completely unqualified people into computer wizardry and multiply their job prospects overnight.

It is in fact a reputable establishment founded with a mixture of private and public money. Its students include young jobless without formal qualifications or skills who might normally find it difficult to obtain computer and electronics training. And, after 18 months in operation, it is demonstrating a remarkable ability to multiply job prospects.

The school is a working example of the UK Government's belief that there must be a clear connection between training to-day and employment tomorrow — an outlook which is at the heart of its efforts to reform adult training in the UK.

The initiative to launch the school came from Richard Giordano, chairman of BOC, the industrial gases multinational. In the US he has been active in vocational training programmes since the late 1960s, and he decided to involve the company in a similar venture in the UK in the wake of the Toxteth and Brixton disturbances.

BOC wanted the new school to offer training in skills which are in short supply in the labour market, and decided after research to run courses for computer programmers, computer operators and electronic technicians.

A building at Hammersmith, near BOC's former head office, was chosen because of ease of communication from many parts of the London area. The company has invested around £500,000 in launching the London Computer and Electronics School. Further grants of £100,000 have come from the Department of Trade and Industry and £75,000 from the London Borough of Hammersmith and Fulham.

BOC also approached the Manpower Services Commission for additional support of £325,000 to cover the first year's operations on an unusual basis—the company agreed to accept a performance related contract under which it would receive the full £325,000 only if it succeeded in placing trainees in

employment. "Some people thought we were taking a risky gamble with that sort of contract," says Tony Fielden, BOC's business development manager, who established the school.

"But on the computer courses we've obtained a 100 per cent job placement rate. In fact it's more than 100 per cent, because we take on extra trainees to cover possible drop-outs."

Bryan Nicholson, chairman of the MSC, recently warned the computing services industry that it suffers from a "graduate fever," with a tendency to recruit over-qualified staff for work which could easily be handled by properly trained young people.

All applicants—most of whom contact the school in response to newspaper advertisements—undergo an initial aptitude test which examines verbal, numerical, diagrammatic, spatial and mechanical skills. This is followed by an interview to assess ability to respond to training and future employment potential.

"If the test shows they can handle the course they come in regardless of qualifications," says Fielden. "The average level of attainment is around three or four 'O' levels."

Although there is no age barrier students are typically in their twenties. About two-thirds are unemployed and the other third what Fielden regards as under-employed, doing unskilled work below their potential. They are supported financially while at the school by MSC adult training grants.

The school places a strong emphasis on developing students' practical abilities, something which is encouraged by the use of trainers from an industrial rather than an academic background.

It is made clear to trainees that the end product of their time at the school—courses last between 15 and 31 weeks—is employment, rather than training for its own sake. Equipment used for training is of a type they are likely to encounter in the workplace. The school insists upon work-place standards of attendance, punctuality and dress. And—supporting a theme which BOC has been running in the US for 15 years—the school has its own job placement service, finding employers for trainees.

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MOTOR INDUSTRY

German car makers gear up against 'Japanisation'

By John Davies in Frankfurt

WEST GERMAN car-makers have learnt a healthy respect for their Japanese rivals. But while the Japanese are causing an upheaval in the US car industry and have become entrenched in Europe, the West Germans are confident of withstanding this "Samurai challenge".

The West German manufacturers have made great efforts in recent years to improve the competitiveness of their car industry. They have invested heavily in modern production equipment and flexible manufacturing. With the electronics revolution gathering pace, they are introducing or working on more sophisticated electronics-based technology for use in cars.

In addition, the Germans believe that the Japanese cost of production advantage will continue to be eroded. Wage costs, although starting from a lower level, have been rising faster in Japan than in Germany.

The Germans have just gone through two difficult years, with the Japanese simply one of a number of headaches. Car output stopped for up to seven weeks in 1984 because of the labour conflict over shorter working hours. Last year the market was in turmoil because of uncertainties about the Bonn Government's poorly thought-out plans for tightening emission controls.

Even so, the Germans produced a record 4.7m cars last year, with a trend towards higher valued and well accessorised models. They exported 81.5 per cent of them, a record 2.87m. In addition, a record 1.2m cars with German labels were produced abroad, notably in Spain.

So far, the mass production car makers—Volkswagen, and the two US-owned groups long-established in Germany, Fordwerke and Opel (General Motors)—have been the most exposed to Japanese competition. With the Japanese adding to already fierce price rivalry, all mass producers in Europe have found their margins squeezed and this is one reason why Fordwerke and Opel have made losses during the last two years. But there are other reasons, such as the labour conflict, model range problems and the dampening effect of unem-

	1985	1984
Volkswagen*	23.1	21.9
Opel	13.6	14.5
Daimler-Benz	11.5	9.8
Ford	10.7	12.3
BMW	6.1	6.7
Audi	5.5	6.0
Japanese	12.3	12.0
French	7.4	7.6
Italians	4.7	5.2
Others	4.1	4.0

* VW without its Audi subsidiary.

Source: W. German Vehicle Registration Office

employment on some markets.

With the Japanese moving more into medium and luxury class market segments, they are shaping up as competitors of Audi, BMW, Daimler-Benz and Porsche. While these companies take the Japanese seriously, they are pre-occupied with struggles among themselves and with other traditional foreign rivals.

The Japanese, however, have been slowly but steadily increasing their share of the German market during the past three years. The market slipped 0.6 per cent to 2.88m last year, but Japanese sales exceeded 300,000 for the first time—rising 9.8 per cent to a record 316,350. This gave the Japanese a 13.3 per cent share, compared with 12 per cent in 1984 and around 10 per cent during the previous four years.

The Germans argue that the losers have been the French and Italians, as car imports from these countries declined last year. Overall, foreign imports, including German cars assembled in Spain, made up a virtually unchanged 30 per cent of all new registrations.

Elsewhere in Europe, the Japanese have been putting a lot of effort into "neutral" countries with little or no indigenous car production. They have been obliged to avoid large-scale imports into France, Italy and the UK, but the Germans dismiss any thought of erecting import barriers.

"Protectionism is a fundamental error," says Dr Achim Diekmann, director of the West German Automobile Industry

Association. "The Japanese challenge has given the German car industry an added incentive to make its production system more efficient and to improve the quality of its products."

The Germans have trebled their rate of investment in the motor industry in the past 10 years. Last year it invested a record DM 10bn on plant, equipment and model improvements. Half the 8,900 robots at work in German industry are in car plants, including the highly automated "Hali 54" built by VW at Wolfsburg.

VW has invested an average of about DM 5bn during the past five years as part of an effort to improve its competitiveness. As a multinational, it has made strategic moves to secure footholds abroad—entering into a joint venture in China and linking with Seat (which it is now taking over) to produce cars in Spain. Its US manufacturing overcapacity is still a headache, but in Wolfsburg it has been boosting capacity and hiring workers to meet strong European demand for the new generation Golf.

Fordwerke and Opel, too, have embarked on large-scale investment to streamline production and improve their model ranges. Fordwerke announced last year it would invest more than DM 4bn over five years, DM 1bn more than in the previous five years. Opel launched a plan to invest DM 7.4bn between 1984 and 1988, partly to improve productivity and flexibility. To bolster their competitiveness, however, both Ford and Opel have long since turned to Spain as a site for production of small, low-cost models.

The upper bracket specialist companies, which have shown the fastest growth, have carried out heavy investment in Germany. Daimler-Benz, for instance, spent more than DM 1.1bn to expand its Bremen works, introducing automation where it would improve quality and flexibility. BMW is spending DM 1.3bn on its new Regensburg plant, due to start up in the autumn.

The Germans have always stressed the engineering performance of their cars—what they refer to as the "genuine technical qualities." In a similar vein, they are bent on harnessing

WORLD CAR PRODUCTION (figures in millions)

	1985*	1984
West Germany	4.77	3.79
France†	2.63	2.71
Italy	1.38	1.44
UK	1.05	1.91
Other W. Europe	2.28	2.18
Total W. Europe	11.49	11.03
Japan	7.60	7.87
US	8.19	7.77
Canada	1.08	1.02
Latin America	1.19	1.89
Other	3.10	2.99
Total	32.65	30.97

* Some figures estimated. † Including kits for AMC/Renault production in US.

Source: West German Automobile Industry Association

electronics for "serious" and "out-of-sight" purposes such as anti-skid technology. The Japanese, they argue, concededly, take more readily to electronic gadgets and "blinking lights" but they do not believe this is the case with buyers of German cars.

Car technology is expected to become a greater competitive factor as the Japanese lose more of their cost of production advantage. "The Japanese still have an advantage of around 20 per cent," says Dr Diekmann of the automobile industry association. They lose half of that through shipment and associated costs, he says. "Towards the end of the century, a great part of this cost advantage should be lost because the Japanese will have caught up with our cost levels."

Wage costs indicate this trend. The Japanese motor industry's hourly labour cost in 1980 was DM 14.50, compared with DM 26.91 in German motor plants. By 1984 the gap had narrowed, with Japan's cost DM 25.48 and Germany's DM 32.89, according to the automobile industry association.

The Germans could face harder competition in the medium term in more "fluid" markets such as the US. "No one can foresee how the tastes of car buyers will turn out,"

"We feel uneasy about what we see as the Japanisation of the US motor industry," says Dr Diekmann. At the same time the Germans are warily watching Japanese moves for production in the UK. But he feels that the decisive competitive factor in future will be technology.

"There is a long tradition of over-emphasising the engineering part of the car business in Germany," he admits. "But in the period of intense technology-based competition which the car has now entered, this may turn out to be an advantage."

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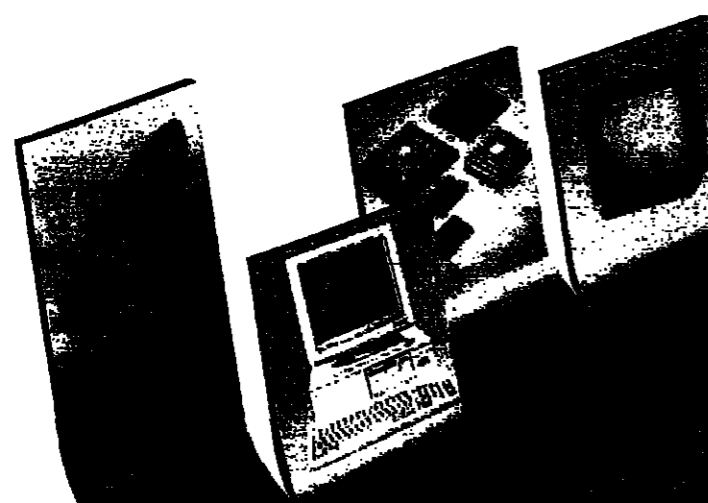
Figures based on the market prices at 3.50pm on Tuesday.

HANSON TRUST

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**UK NEWS
Biwater confirms award of Malaysian contract**

BY CHRISTIAN TYLER, TRADE EDITOR

ONE of the biggest contracts in south-east Asia yet awarded to a British company has been signed in Malaysia. But the announcement in the UK yesterday was clouded by hesitation on the part of the British Government to confirm the deal until details of a large UK aid package have been settled.

Biwater, a specialist contractor in water treatment, confirmed that it had won a 1.4bn ringgit (£304m) turnkey contract with a Malaysian partner to supply drinking water for millions of rural people in a five-year project. About £200m worth of equipment and services would be provided from the UK.

The contract has been seen as the symbol of restored political relations between Britain and Malaysia, interrupted four years ago by a dispute over the "repatriation" of Malaysian assets and a cut in scholarships for foreigners studying in Britain.

Since her visit to Malaysia last April, Mrs Margaret Thatcher, the Prime Minister, has been taking a personal interest in the Biwater negotiations, which have taken two years to conclude.

Britain has promised to give £80m of aid money and guarantee bank loans to the value of a reported £135m to help to win the contract for Biwater, which is based in Dorking, south of London.

Last night Whitehall officials said the details of the aid package - which would be one of the largest of its kind - had still to be settled. The Malaysian Government had yet to accept the offer of aid money and Biwater's announcement was premature.

The Government's hesitation was described by the company as "sour grapes." A spokesman said ministers had been hoping to get political credit out of the deal and had tried to delay the announcement. The contract had, however, been signed on Monday under television lights in the Malaysian Prime Minister's office in Kuala Lumpur.

One Whitehall official suggested that the British Government had still not decided how great its financial support of the project should be. Others said the £80m was already committed.

"As far as we are concerned, there is no problem with the finan-

cial package," a Biwater spokesman said last night. "I cannot see how at this stage anything can go wrong."

News of Biwater's success first emerged last November but the contract signing was postponed at the last minute. There were fears then that premature disclosure would upset the Malaysian authorities.

Biwater, with its partner Antah Holdings, controlled by the royal family of Negri Sembilan state, is to design and construct 174 rural water supply schemes in all of Malaysia's 13 states. Work is to start this summer.

Anglo-Malaysian ties became strained in 1982 when Dr Mahathir, the Malaysian Prime Minister, launched a campaign against British goods and services.

In imposing the so-called "buy British last" policy, Dr Mahathir was angered by what he considered to be patronising British attitudes towards its former colony, as well as the failure of the UK authorities to appreciate Malaysian aspirations, in particular with regard to the buy-back of British plantation and mining assets in Malaysia.

Tory revolt forces amendment to Financial Services Bill

BY IVOR OWEN

THE GOVERNMENT'S political problems over the Financial Services Bill increased yesterday when a Tory backbench revolt forced through an amendment giving the Securities and Investment Board (SIB) powers to prosecute alleged criminal offenders.

The amendment was moved during a standing committee debate on the bill in the House of Commons by Mr Anthony Nelson, (Conservative), who has campaigned for more explicit statutory recognition and authority for the SIB. The body is expected to become the City of London's key regulatory authority.

It was passed by 11 votes to seven after Mr Nelson and his fellow Conservatives, Mr Robert McCrindle, Mr Tim Smith and Mr Tim Yeo sided with the Opposition. The vote followed a strongly worded attack on the Department of Trade and In-

dustry's system for bringing fraud prosecutions by Mr Smith.

He said that there were delays because the process was "lawyer ridden" and that this "suited lawyers because their fees accrued more quickly."

Yesterday's reversal for the Government came two weeks after it suffered an earlier defeat when opposition MPs joined forces with Mr Nelson to name the SIB in the bill, recognising it in law.

Mr Nelson said last night that the earlier amendment had "taken the chain of command in the City of London's key regulatory authority."

Last night Mr Michael Howard, the Consumer and Corporate Affairs Minister, said that it would be a finely balanced matter of judgment on whether the Government would try to remove SIB's new powers

of prosecution during the bill's report stage after Easter.

During the debate, Mr Howard said that it would be an undesirable and unnecessary duplication of scarce human resources to give the SIB prosecution powers which the Government was to reserve to the Trade and Industry Department and the Director of Public Prosecutions.

A committee on fraud trials had argued strongly against the proliferation of authorities responsible for starting criminal proceedings.

Mr Nelson's amendment gives the SIB powers to prosecute only for offences specifically defined in the bill, including operating an investment business without authorisation or making false or misleading statements to investors or potential investors.

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74% Convertible Subordinated Guaranteed Debentures Due 1992
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Pursuant to section 1206 entitled "NOTICE TO HOLDERS PRIOR TO CERTAIN ACTIONS" of the indenture dated as of September 1, 1972, governing the above referenced series of Debentures, notice is hereby given that an Agreement and Plan of Merger as modified from time to time (the "Agreement") dated as of November 14, 1985, and modified as of February 2, 1986, was entered into by and among Beatrice Companies, Inc., a Delaware corporation (the "Company"), BCI Holdings Corporation, a Delaware corporation ("Parent"), and BCI Merger Corporation, a Delaware corporation and an indirect subsidiary of Parent ("Merger Sub"). In accordance with the Agreement and the Delaware General Corporation Law, Merger Sub shall be merged with and into the Company (the "Merger") whereupon the separate existence of Merger Sub (except as may be continued by operation of law) shall cease, and the Company shall continue as the surviving corporation.

Subject to stockholder approval and the satisfaction or waiver of the conditions set forth in the Agreement, it is anticipated that the parties hereto will cause the Merger to be consummated in mid or late April 1986, by filing with the Secretary of State of Delaware a certificate of merger in such form as required by, and executed in accordance with, the relevant provisions of the Delaware General Corporation Law. As of the effective time of the Merger, each share of common stock, without par value, of the Company (the "Shares") issued and outstanding immediately prior to the effectiveness of the Merger (other than (a) Shares which are issued and outstanding immediately prior to the effectiveness of the Merger and owned by Parent or any direct or indirect subsidiary of Parent, or which are held in the treasury of the Company or its subsidiaries and (b) Shares held by any holder who has perfected disinterested rights under the Delaware General Corporation Law) shall be cancelled and extinguished and be converted into the right to receive (i) \$40 in cash, without any interest thereon, and (ii) 10/25 of a validly issued, fully paid and nonassessable share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of \$25 per Share.

Following consummation of the Merger, holders of the Debentures will be entitled to receive upon conversion of their Debentures, for each Share into which such Debentures were convertible immediately prior to the Merger, \$40 in cash, without any interest thereon, and 10/25 of a share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of \$25 per Share. Any holder of Debentures who wishes to claim disinterested rights with respect to the Shares into which such holder's Debentures are convertible must convert his Debentures into Shares prior to the effectiveness of the Merger, and must complete the further steps specified in the Delaware General Corporation Law for the perfection of such rights.

Any questions regarding the effect of the Merger on outstanding Debentures, or regarding the procedure for conversion of Debentures into Shares prior to the effectiveness of the Merger should be directed to:

Mr. Michael Quare
Beatrice Foods Overseas Finance N.V.
2 North LaSalle St., 25th Floor
Chicago, Illinois 60602

BEATRICE FOODS OVERSEAS FINANCE N.V.

GESTETNER HOLDINGS PLC

At the Company's Annual General Meeting on 17th March 1986, a final cash dividend of 1p per share in respect of the 52 weeks ended 2nd November 1985 was approved for payment, on 3rd April 1986, to holders of Ordinary shares registered at the close of business on 14th February 1986.

Holders of Ordinary shares in bearer form should lodge Coupon 122 at Barclays Bank PLC, Securities Services Department, 54 Lombard Street, London EC3P 3AH on or after 3rd April 1986 for their entitlement to the above dividend.

Holders of Ordinary Capital shares are reminded that, whilst they have no entitlement to a cash dividend at this time, they are entitled to scrip in lieu of the final dividend for the 52 weeks ended 2nd November 1985. Such entitlement, based upon each Ordinary Capital share registered at close of business on 14th February 1986, is as follows:-

based on the average price of	102.8824p
for each Ordinary Capital share held, holders will receive	0.013885 of an Ordinary Capital share

Fractions of new shares will be sold for the benefit of the Company. Scrip, allotted on 20th March 1986, will be despatched to registered shareholders on 2nd April 1986.

Holders of Ordinary Capital shares in bearer form should lodge Coupon 122, with allotment instructions, at Barclays Bank PLC, Securities Services Department, 54 Lombard Street, London EC3P 3AH on or after 2nd April 1986 for their entitlement to registered Ordinary Capital shares in accordance with the above.

R. L. E. Lewis
Secretary

London N17 9LT
March 24 1986

NOTICE TO HOLDERS OF BEATRICE FOODS OVERSEAS FINANCE N.V.
74% Convertible Subordinated Guaranteed Debentures Due 1992
Convertible on and after July 1, 1973, into Common Stock of, and Guaranteed on a Subordinated Basis as to Payment of Principal, Premiums, if any, Interest and Sinking Fund by Beatrice Companies, Inc.

Pursuant to section 1206 entitled "NOTICE TO HOLDERS PRIOR TO CERTAIN ACTIONS" of the indenture dated as of November 1, 1970, governing the above referenced series of Debentures, notice is hereby given that an Agreement and Plan of Merger as modified from time to time (the "Agreement") dated as of November 14, 1985, and modified as of February 2, 1986, was entered into by and among Beatrice Companies, Inc., a Delaware corporation (the "Company"), BCI Holdings Corporation, a Delaware corporation ("Parent"), and BCI Merger Corporation, a Delaware corporation and an indirect subsidiary of Parent ("Merger Sub"). In accordance with the Agreement and the Delaware General Corporation Law, Merger Sub shall be merged with and into the Company (the "Merger") whereupon the separate existence of Merger Sub (except as may be continued by operation of law) shall cease, and the Company shall continue as the surviving corporation.

Subject to stockholder approval and the satisfaction or waiver of the conditions set forth in the Agreement, it is anticipated that the parties hereto will cause the Merger to be consummated in mid or late April 1986, by filing with the Secretary of State of Delaware a certificate of merger in such form as required by, and executed in accordance with, the relevant provisions of the Delaware General Corporation Law. As of the effective time of the Merger, each share of common stock, without par value, of the Company (the "Shares") issued and outstanding immediately prior to the effectiveness of the Merger (other than (a) Shares which are issued and outstanding immediately prior to the effectiveness of the Merger and owned by Parent or any direct or indirect subsidiary of Parent, or which are held in the treasury of the Company or its subsidiaries and (b) Shares held by any holder who has perfected disinterested rights under the Delaware General Corporation Law) shall be cancelled and extinguished and be converted into the right to receive (i) \$40 in cash, without any interest thereon, and (ii) 10/25 of a validly issued, fully paid and nonassessable share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of \$25 per Share.

Following consummation of the Merger, holders of the Debentures will be entitled to receive upon conversion of their Debentures, for each Share into which such Debentures were convertible immediately prior to the Merger, \$40 in cash, without any interest thereon, and 10/25 of a share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of \$25 per Share. Any holder of Debentures who wishes to claim disinterested rights with respect to the Shares into which such holder's Debentures are convertible must convert his Debentures into Shares prior to the effectiveness of the Merger, and must complete the further steps specified in the Delaware General Corporation Law for the perfection of such rights.

Any questions regarding the effect of the Merger on outstanding Debentures, or regarding the procedure for conversion of Debentures into Shares prior to the effectiveness of the Merger should be directed to:

Mr. Michael Quare
Beatrice Foods Overseas Finance N.V.
2 North LaSalle St., 25th Floor
Chicago, Illinois 60602

BEATRICE FOODS OVERSEAS FINANCE N.V.

NOTICE TO HOLDERS OF Warrants to Purchase Common Stock of Beatrice Companies, Inc.

Pursuant to Section 6(b) of the Warrant Agreement dated as of September 15, 1984, by and between Beatrice Companies, Inc., a Delaware corporation (the "Company"), and Citicorp, N.A. (the "Warrant Agent"), notice is hereby given that the Company will execute an amendment (the "Amendment") to the Warrant Agreement in connection with the hereinbefore described Merger.

An Agreement and Plan of Merger as modified from time to time (the "Agreement") dated as of November 14, 1985, and modified as of February 2, 1986, was entered into by and among the Company, BCI Holdings Corporation, a Delaware corporation ("Parent"), and BCI Merger Corporation, a Delaware corporation and an indirect subsidiary of Parent ("Merger Sub"). In accordance with the Agreement and the Delaware General Corporation Law, Merger Sub shall be merged with and into the Company (the "Merger") whereupon the separate existence of Merger Sub (except as may be continued by operation of law) shall cease, and the Company shall continue as the surviving corporation. Subject to stockholder approval and the satisfaction or waiver of the conditions set forth in the Agreement, it is anticipated that the parties hereto will cause the Merger to be consummated in mid or late April 1986, by filing with the Secretary of State of Delaware a certificate of merger in such form as required by, and executed in accordance with, the relevant provisions of the Delaware General Corporation Law. As of the effective time of the Merger, each share of common stock, without par value, of the Company (the "Shares") issued and outstanding immediately prior to the effectiveness of the Merger (other than (a) Shares which are issued and outstanding immediately prior to the effectiveness of the Merger and owned by Parent or any direct or indirect subsidiary of Parent, or which are held in the treasury of the Company or its subsidiaries and (b) Shares held by any holder who has perfected disinterested rights under the Delaware General Corporation Law) shall be cancelled and extinguished and be converted into the right to receive (i) \$40 in cash, without any interest thereon, and (ii) 10/25 of a validly issued, fully paid and nonassessable share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of \$25 per Share.

The Amendment will provide that the Company after the Merger shall specifically assume all of the obligations which the Company undertakes pursuant to the Warrant Agreement and the warrants issued thereunder (the "Warrants"). The Amendment will further provide that the holder of each outstanding Warrant to purchase Shares shall have the right during the period such Warrant is exercisable as provided in Section 4 of the Warrant Agreement, after the effective date of the Merger, to purchase (i) \$40 in cash, without any interest thereon, and (ii) 10/25 of a validly issued, fully paid and nonassessable share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of \$25 per Share for each Share for which such Warrant was exercisable immediately prior to the Merger.

Any holder of Debentures who wishes to claim disinterested rights with respect to the Shares for which such holder's Warrants are exercisable must exercise his Warrants for Shares prior to the effectiveness of the Merger, and must complete the further steps specified in the Delaware General Corporation Law for the perfection of such rights.

The Amendment will also provide for adjustments which, for events subsequent to the effective date of the Amendment, shall be as nearly equivalent as may be practicable to the adjustments provided for in Section 5 of the Warrant Agreement.

Any questions regarding the Amendment, the effect of the Merger on outstanding Debentures or the procedure for conversion of Debentures into Shares prior to the effectiveness of the Merger should be directed to:

Mr. Michael Quare
Beatrice Companies, Inc.
2 North LaSalle St., 25th Floor
Chicago, Illinois 60602

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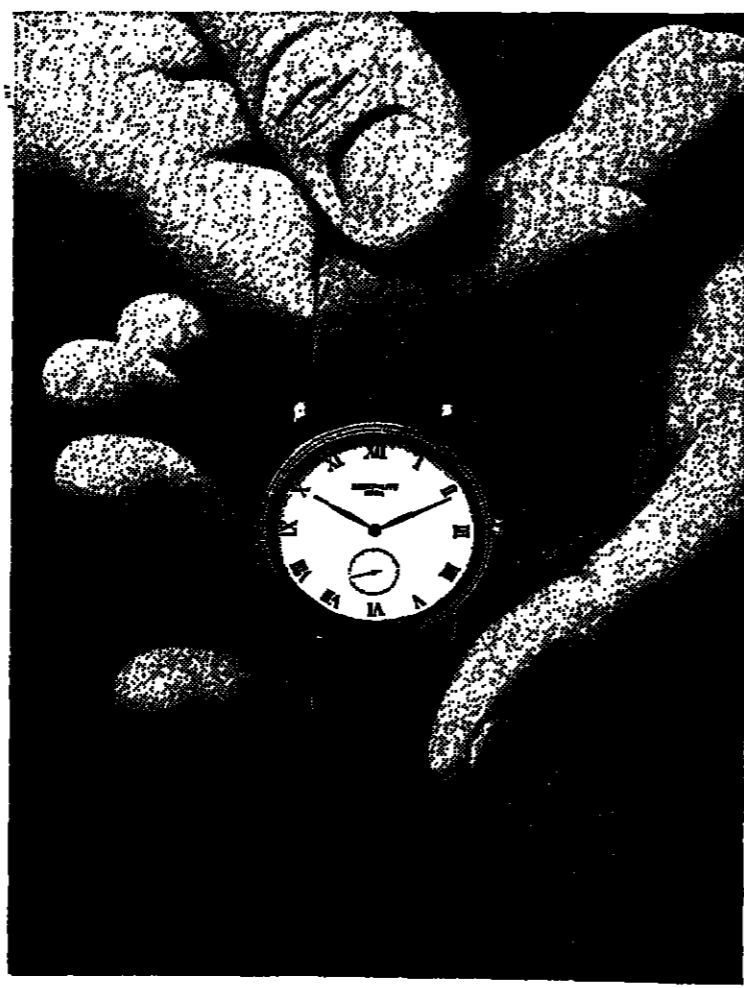
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UK NEWS

Employers see better growth, inflation outlook

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE COLLAPSE of the oil price and the steep fall in sterling's value against European currencies have provided a more optimistic outlook for growth and inflation in Britain, the Confederation of British Industry (CBI) said yesterday.

Toyota 'to sell Lotus stake to GM'

By John Griffiths

THE SALE to General Motors of Toyota's 21.48 per cent stake in Group Lotus, the UK sports-car and engineering concern, is understood to be imminent.

GM last night was expecting confirmation of reports from Tokyo that the sale would go ahead. It would take GM's holding in Lotus to more than 50 per cent after its agreed bid in January, according to merchant bankers Morgan Grenfell, who advised GM on the bid.

GM has made clear that it wants 100 per cent control of Group Lotus. Toyota was the only substantial shareholder not to have given an early acceptance of the offer.

Toyota's reported sale price of ¥127bn (¥4.77m) for 3.77m shares is in line with the 129.5p a share terms of the January bid.

Japan's largest vehicle maker, whose relations with Lotus's British board members became strained in the few months before the GM deal, has been hitting for some days that it would yield its share.

Despite the cooling of relations between Toyota and Lotus, a collaboration agreement between the two sides signed in 1983 is understood to be still in place. Lotus remains hopeful that Toyota's components can be used in a heavily revised version of its planned "cheap" X100 sports car, which had been scheduled for production next year, but the launch of which now faces delays.

Toyota's decision will help to clear the decks for an early GM approval of a new strategy for the future being drawn up by existing Lotus board members. Under it, Lotus would undertake early replacement of its complete range of cars, increase production to 10,000 cars or more a year - from last year's 800 - and possibly build engines and other components both for itself and GM.

Its board is expected to be restructured shortly, to comprise all-British executive directors, plus two non-executive appointees from GM.

CLEARING HOUSE TO REPLACE PRINCIPAL-TO-PRINCIPAL DEALINGS LME to reform trading system

BY STEFAN WAGSTYL

THE LONDON Metal Exchange, which is struggling to recover from the tin crisis, yesterday bowed to heavy pressure from some of its members and from the regulatory authorities and decided to reform its trading system.

In one of the biggest changes to its rules since it was founded in 1877, the exchange will replace the current arrangements, under which traders deal directly with each other in a principal-to-principal market, with a clearing house, which acts as an intermediary. Almost every other financial market in the world already uses a clearing house, because they are widely thought to reduce trading risks.

The LME board decision yesterday followed a meeting between Mr

Jacques Linn, LME chairman, and Mr Michael Brown, chief executive, with Sir Kenneth Berrill, chairman of the Securities and Investments Board, which has been set up by the Government to regulate London markets. Mr Brown said the exchange was told by Sir Kenneth that it had to have a clearing house.

That clearly gave the LME no choice, since it will, by law, have to register with the SIB later this year under changes planned by the Government's Financial Services Bill.

But some LME members had in any case been demanding urgent reform. Last week two companies - J.H. Baxner (Mining Lane) and Holco Trading - stopped trading on the LME but said they would consider if the exchange brought in a clearing house.

The LME authorities had been considering possible reforms well before the £300m default of the International Tin Council plunged the market into difficulties in October. They were well aware of the SIB's preference for a clearing house. But some traders continued to argue that the principal-to-principal market was adequate and that the proposed changes would drive away business by putting up trading costs.

The LME board said in a statement that it was now "accelerating the pace of discussion" on reconstructing the market and in particular on adopting a clearing house. It is not planning to run its own clearing house but is instead negotiating

with the International Commodities Clearing House, which handles clearing for other London futures exchanges and for several exchanges in other countries.

The LME is anxious that it will not lose its traditional clientele among mining and metals companies. It said: "These negotiations will reflect the wish of the LME that [it] remains a trade-orientated market."

ICCH, which is owned by a bank consortium, is familiar with the LME since it has handled its existing trade monitoring system-called Memo - since 1977. Mr Ian McGaw, the managing director, said: "I believe we can operate a clearing system that will reflect the particular requirements of the LME."

Telegraph newspapers to move with 'substantial' redundancies

BY RAYMOND SNOODY

THE Daily and Sunday Telegraph newspapers are to move out of Fleet Street in central London after 131 years of publishing in the traditional heart of the British national newspaper industry.

The move by everyone, including journalists and commercial staff, is part of a plan outlined to the newspapers' unions yesterday which will also involve "substantial" redundancies among the printing staff.

Mr Andrew Knight, chief executive of the Daily Telegraph group, described the changes as "a survival plan and a viability plan" designed to bring the loss-making Daily Telegraph back into profit.

All departments, apart from the printing operation, would be moved into a single building in "a reasonably central London location." The new Telegraph headquarters might be on the same site as the company's new printing plant at West Ferry Road, in the Isle of Dogs, east London, but other options are also being considered.

"You think a long time before you move from somewhere where you have been from the beginning," Mr Knight said. "But there are new conditions in the newspaper industry and where we are is not an efficient place to run a newspaper."

He said that before printing started at the new London plant in September or October, "we have to

have a company which is able to trade at a profit."

The company is refusing to say how many redundancies it is seeking from a total staff of about 3,300.

Union officials were warned yesterday that redundancy packages of up to £45,000 could be financed only if there was full co-operation and continuous production during the transition period.

Mr Knight emphasised yesterday that the survival plan was not "a bare-rattling but grounded in financial reality." In the first half of the financial year to March 1986, the company lost £10m, including redundancy and training payments, and the second half would show no improvement.

The Daily Telegraph group is also setting up separate companies for its Manchester and London printing operations - Trafford Park Printers and West Ferry Printers. Individual managements of the new companies would reach their own agreements with unions on terms and number of employees and would be actively seeking contract printing work.

Mr Knight said the aim was through proper procedures "to achieve recognition [of the unions], generous redundancy and a company that was earning its keep."

British Printing & Communication Corporation (BPCC), the publicly quoted printing group headed

by Mr Robert Maxwell, is to acquire the journal publishing operations of Pergamon Press, Mr Maxwell's private company, in a deal worth £238.65m in shares, Charles Batchelor writes.

The deal would boost BPCC's profits and market capitalisation as a prelude to further acquisitions intended to establish the company as one of the leading groups in the world information and communications business.

Pergamon Journals now numbers 381 titles ranging from Accident Analysis and Prevention to Vistas in Astronomy, from Insect Biochemistry to the Journal of Aerosol Science. It has expanded enormously since Mr Maxwell started importing research documents into Britain from post-war Germany.

The journals, described by Mr Maxwell yesterday as "the crown jewels of Pergamon Press," have long been known to be very profitable but their contribution has been obscured by the growing spread of Pergamon's other interests.

The deal, which will involve the issue of 107.5m new BPCC shares, will increase the Pergamon stake in BPCC to nearly 75 per cent and mean BPCC could finance takeovers by the issue of shares without Pergamon going below 50 per cent of BPCC.

Lex, Page 20

Shift to right in TGWU elections

By David Thomas, Labour Staff

A SHIFT to the right has taken place in elections for the executive of the Transport and General Workers Union (TGWU), Britain's largest union.

Election results for 14 posts to represent the union's trade or industrial groupings are due to be announced today but it is already clear that several left-wing incumbents have lost their seats.

It is understood, for example, that the right has won the seats representing the agriculture and civil-aviation trade groups.

This set of elections is the first in which the trade group representatives on the union's executive have been elected by secret individual ballot of the membership, in accordance with the 1984 Trade Union Act.

However, it appears that the right has not obtained a clean sweep of the elections. It is understood, for example, that both the road transport and public services trade groups have returned left-wingers.

Political groupings on the 41-strong TGWU executive are not as clearly defined as in some other unions, but in the past the left has normally been able to control the union.

The extent to which the gains by the right will affect the union's policy and direction is therefore not yet clear.

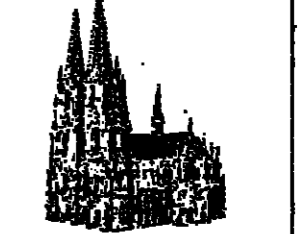
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Facts and figures differ from one market to another and from one model to another. The specifications of the Volvo 760 may vary from market to market. The Volvo PV 444, introduced in 1944, was the first post-war automobile to be made at the Volvo factories, Volvo Car Corporation, S-405 08 Göteborg, Sweden.

UK NEWS

Barclaycard signs up stores for electronic shopping scheme

BY ALAN CAINE
BARCLAYCARD, the credit-card subsidiary of Barclays Bank, yesterday announced the first phase of an ambitious "electronic shopping" scheme designed to cut costs and paperwork, and deter fraud in credit-card transactions.

Barclaycard intends to rely on signature verification rather than personal identity numbers (Pin). "People forget their Pins," Mr Elliott said.
The scheme eliminates much of the paperwork involved in the credit-card business. In 1985, there were more than 200m Barclaycard transactions.

tailors that plans to install only 1,000 computer terminals had been revised to "several thousand" in collaboration with the Joint Credit Card Company owned by National Westminster, Midland and Lloyds banks, which issues Access cards.
The first 1000 terminals are expected to be installed by the middle of June.

Readership of Today 'declining'

By Raymond Snoddy
THE READERSHIP of Mr Eddie Shah's new daily newspaper, Today, is declining, according to latest market research. Figures for the second full week of production show that the average daily readership of the colour tabloid fell to less than 1 per cent of a panel of more than 1,000 consumers.

BL affair resurrects doubts over style of Thatcher Cabinet

BY PETER RIDDELL, POLITICAL EDITOR
TEN DAYS AGO, Mrs Margaret Thatcher's message to the Conservative Central Council was that the Government operated by firmness and conviction, not by bending and turning.

Yet those words have apparently been contradicted since then by the ineptness and vacillation over BL, the state-owned vehicles group, leading up to yesterday's statement to the House of Commons by Mr Paul Channon, the Trade and Industry Secretary.
As one Whitehall wit remarked when asked what the score was: "Department of Trade and Industry, nil; rest of the world, one."

Company Notices

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UK NEWS

NCB aims to draw gas from offshore coalfields

BY MAURICE SAMUELSON

A METHOD of producing gas from large coalfields under the bed of the North Sea is to be developed by the National Coal Board (NCB) in an offshore pilot project to be launched in the English Midlands.

The project, for which the NCB is to seek planning permission, will involve gasification of a 2,000 ft-deep coal seam in Nottinghamshire. Using oil-industry drilling techniques, the NCB will test methods of tapping the energy potential of large reserves of otherwise inaccessible coal under the sea around Britain's coast.

Mr Ken Moses, NCB technical director, said offshore oil exploration had shown there were "billions" of tonnes of coal in seams up to 70 ft thick that were too far from land to be mined. "This could be the only way for future generations to get at that coal."

Date set for London equities trading by Citicorp offshoot

BY ALEXANDER NICOLL

CITICORP, the largest US bank holding company, said yesterday that a wholly owned subsidiary, Scrimgeour Vickers (Traders), would begin market-making in equities on the London Stock Exchange from next Tuesday.

Mr Pettit said he did not expect Scrimgeour Vickers (Traders) to be a significant jobbing force before October. Citicorp had established it in advance of the Big Bang so as to be ready for the advent of negotiated commissions.

Radiation safety selection method backed

By David Fishlock, Science Editor

A NEW way of picking the best method for protecting people from radiation, particularly medical uses and natural leaks, has been approved by the British Government's watchdogs on public exposure to radiation.

Exchange may disclose option holders' identity

BY ALEXANDER NICOLL

COMPANIES listed on the London Stock Exchange's traded options market will have the right to know the identity of holders of large options positions under a measure announced yesterday by the exchange.

right to buy shares, and "puts" the right to sell them. In practice, the limit has never been approached. Options currently outstanding on the 36 listed stocks represent between 1 and 5 per cent of their equity.

NOTICE TO HOLDERS OF Warrants to Purchase Common Stock of Beatrice Companies, Inc.

Notice is hereby given by Beatrice Companies, Inc., a Delaware corporation (the "Company"), pursuant to Section 6 of the Warrant Agreement dated as of September 15, 1984, by and between the Company and Citibank, N.A., that an Agreement and Plan of Merger as modified from time to time (the "Agreement") dated as of November 14, 1985, and modified as of February 2, 1986, was entered into and among the Company, BCI Holdings Corporation, a Delaware corporation ("Parent"), and BCI Merger Corporation, a Delaware corporation and an indirect subsidiary of Parent ("Merger Sub").

Mr. Michael Quane, Beatrice Companies, Inc., 25th Floor, Chicago, Illinois 60602

BEATRICE COMPANIES, INC.



AECI LIMITED

(Incorporated in the Republic of South Africa)

61st ANNUAL REPORT

Year ended 31 December 1985

CHAIRMAN'S STATEMENT

In 1985 the AECI Group operated in an environment characterised by a low level of business activity and continued political instability in South Africa as the Government wrestled with its programme of reform. In view of these difficult circumstances, it is gratifying to be able to report that AECI Group earnings per share for 1985 increased by 3 per cent from 72 cents earned in 1984 to 74 cents. The dividend of 55 cents per share has been maintained and dividend cover has therefore increased marginally.

which is certainly what business supports, the political concomitant is free choice and, hopefully, this principle will be allowed to modify rigidity of thinking in regard to population groups. The President's opening address was favourably received both internally and abroad, and confirmed that, however slow the process might be, the Government is committed to broadly acceptable reform. Perhaps the most significant aspect of the speech was that, in turning his back on apartheid, President Botha put South Africa solidly back in the mainstream of Western thinking.

and electric power plant for captive use at Midland factory was successfully commissioned during the year. The feasibility study of a coal-based synthetic fuels plant presented to the Authorities late last year indicated it to be a viable option given certain favourable market-place considerations. All synthetic fuel options will however require careful evaluation in the light of plummeting international oil prices, but would still appear attractive in the long run because of their strategic nature, the volatility of the oil market and their potential for employment creation.

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Notice of Redemption To the Holders of Kansas Gas and Electric International Finance N.V. 15 1/4% Guaranteed Notes Due May 1, 1989

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Indenture, dated as of May 1, 1982, from Kansas Gas and Electric International Finance N.V. and the Kansas Gas and Electric Company, as Guarantor, to Citibank, N.A., Trustee, all \$40,000,000 in principal amount of the addressed Notes will be redeemed on May 1, 1986, at the redemption price of 101 1/4% of the principal amount thereof.

THE ARTS

Television/Christopher Dunkley

Beautiful bodies begin at forty



Tempresses three: Kate O'Mara, Sheila Gish (with Denis Lawson) and Stephanie Powers

Suppose, just for a moment, that 18 men had been killed in February as a direct result of conditions in the nuclear power industry...

Leverton who even used his own feet in Episode 1 to show what happens when you break through the surface of the Petruvian desert.

Moon on a Rainbow Shawl

Michael Coveney

The Observer's play competition of 1987 was won by this haunting poetic backyard drama by Errol John.



Tony Armatrand and Joanne Campbell

The Apostles/Festival Hall

Andrew Clements

Delius once observed that if he could, Elgar would have set the whole Bible to music. There are moments in The Apostles when it seems as if he is trying to do this.

The Man of Mode/Warehouse

Martin Hoyle

Their happy Midsummer Night's Dream was no flash in the pan. The Czech by Jowl company consolidate their position as one of our most thoughtful and stylish touring groups with a grave rendering of Etheridge's Restoration comedy that beneath the frills and froth reveals a harsh, dark, and slightly sadistic party flailing in the small hours as candles gutter, where the country means boredom and the jilting calls a treadmill of intrigue, ostentation and artifice.

Tennstedt/Festival Hall

Paul Driver

Klaus Tennstedt conducted the Leipzig Philharmonic at the Festival Hall on Sunday night in two works: Carl Orff's Carmina Burana and Stravinsky's 1913 Firebird suite.

Notice to members C&G Mortgage Rates Down

C&G Base Rate 1: 12%	effective from 6 April 1986
C&G Base Rate 2: 12.5%	effective from 6 April 1986
C&G Base Rate 3: 11.75%	effective from 1 June 1986

Cheltenham & Gloucester Building Society

Arts Guide Mar 21-Mar 27

NETHERLANDS

Amsterdam, Bellevue Theatre. English Speaking Theatre of Amsterdam with Orion's Entertaining Mr Sloane directed by Grant Coburn.

LONDON

The Scarlet Pimpernel (Bar Majesty): Donald Sinden in resplendent plummy-voiced form as Baroness Orczy's one-man resistance movement to the French Revolution.

NEW YORK

Cats (Winter Garden): Still a sellout. Eliot's children's poetry set to trendy disco in visually startling and choreographically felino, but classic only in the sense of a rather staid and overblown idea of theatricality.

Saleroom/Annalena McAfee

Nothing left unsold

A gold and diamond encrusted snuff box, presented by Queen Victoria in recognition of his work in finding Dr David Livingstone, was sold at Christie's in London for £102,000.

It was part of a collection of orders, medals, and gifts conferred on Stanley on behalf of the explorer's grandson.

Philippine sale of modern British paintings yesterday realised record prices for many artists.

THERE is a large and distinguished group of economists in exile which believes that the management of the British economy has been taken over by barbarians. One of the barbarians has now written a book explaining and defending the government's actions.

A book that changed an economist's mind . . .

Alan Budd explains how Alan Walters has altered his view on money supply and the EMS

The book is intended to challenge conventional ideas and succeeds. To illustrate Alan Walters' approach I shall concentrate on three particular questions about economic policy since 1979. The first is, was the government responsible for the severe economic recession of 1980? The second is, should we join the exchange rate mechanism of the European Monetary System? And the third is, can we claim that the Conservatives' economic policy has been a success?

effects may even have become perverse after the emergence of large deficits in the mid-1970s at the same time as unemployment continued to rise. Although tight fiscal policy cannot have caused the recession, Alan Walters admits that tight monetary policy possibly did so. He favours the use of a narrow definition of the money supply in this context and his arguments are convincing. However, even though monetary policy, on this definition, was tightened significantly in 1979 and 1980, he argues that it is difficult to accept that it was the main culprit. This is because there was no obvious "transmission mechanism." In particular, even though the tightness of money was probably a major cause of the rise in the exchange rate during 1979 and 1980 there is little evidence that the associated loss of competitiveness significantly affected our trade performance.



Roger Taylor Sir Alan Walters: still an influence on Thatcher

My only reservation about this analysis is that, in Alan Walters' example, monetary growth in the two countries should adjust through reserve changes. Italy with a high inflation rate is likely to lose reserves through its trade balance while Germany will gain them. At the same time, trade pressures should bring inflation rates into line. In addition, the changes of reserves may cause fiscal policies to converge at least in the sense that the countries with high inflation will cut their deficits. Alan Walters admits that this may have happened but comments that it is odd to credit EMS with a discipline that arises from its distortions. He concludes that the record of the EMS in producing convergent inflation rates is dismal and that a high price has had to be paid in terms of capital restrictions and political fixes of one kind or another.

Mr Lawson's inheritance tax

The old estate duty, with a false label

By Cedric Sandford

IN THE late 1960s and early 1970s it was common ground among serious students of the UK tax system of all political persuasions that estate duty needed reform. "The voluntary tax" — a tax paid by those who disliked the Inland Revenue more than they disliked their heirs — "a tax paid only by the mean, the ignorant, the unsophisticated, the patriotic or the peculiarly unfortunate" — a tax on vice — the vice of clinging to one's property until the last possible moment — such were typical descriptions of estate duty because it was so easy to avoid. While sophisticated devices were not lacking, the simplest method was to give away property and live for seven years. Today, following the Chancellor's 1986 Budget, estate duty is in effect back.

Capital transfer tax was introduced in 1974-75 precisely to stop up the loopholes in estate duty by taxing gifts, by cumulating gifts and adding them to the estate at death in determining the rate of duty, and by tougher measures against discretionary trusts. It was part of Mr Healey's "determined" attack on inequality in the distribution of wealth; the other part was to be an annual wealth tax. What happened? The gap between Mr Healey's rhetoric and his actions was soon filled. The White Paper on CTT had contained one very important element as compared with estate duty — free transfers between husband and wife. Otherwise it had been tough; it had promised the same rate of tax on lifetime transfers as on transfers at death and a minimum of special concessions. During the Bill's passage through Parliament Mr Healey conceded a lower rate of rates for lifetime gifts up to £300,000. In the next year or so he extended the relief for working farmers, introduced a relief for private businesses and raised the threshold from £15,000 to £25,000. Meanwhile, the wealth tax was shelved. Where Mr Healey had softened the initial impact of the tax, the Conservatives are needed to undermine it. At its inception Mrs Thatcher, as the Conservative's spokesman on finance, promised to abolish CTT. After she became Party

Pension scheme surpluses

From the Editor Pension Lawyer, Sir.—The Budget announcement illustrates the push-pull nature of the statutory regulation for pensions. Though the SFO, part of the Inland Revenue and the "social" arm (the Occupational Pensions Board) have quite different objectives. The SFO concentrates — occasionally to the point of neurosis — on denying or controlling what it perceives (often wrongly) as unpardonable tax breaks within this sphere (e.g. no undue "surpluses"). A principal function of the OPB is to police the solvency of contracted-out schemes (i.e. no deficiencies). Reconciling compliance with these two objectives will now become infinitely more tricky for pension practitioners.

Europe and the airwaves

From the Director-General, Cable Authority Sir.—How refreshing was your leader "Europe rules the airwaves" compared with the continuing carping of entrenched interests at the prospect of European moves to remove obstacles to the development of cross-border TV. You correctly point out that the advent of cable and satellite has ended once and for all the national confines of TV. To say that we need to see fresh answers to the questions raised is in no way to attack national broadcasters, as much as they may prefer the status quo.

Letters to the Editor

What policy does Sir Geoffrey have to stop the introduction of a new generation of Soviet missiles? A comprehensive freeze would certainly stop further Soviet weapons with no loss of security to the west. It is good to see Sir Geoffrey mentioning the need for a strict interpretation of the ABM treaty. If his praise for President Reagan is designed to make the Americans and the British stick to the treaty, this is to be welcomed. (Dr) Andrew Haines, (Dr) Will Howard, Nuclear Freeze, 82 Colston Street, Bristol.

Nuclear arms control

From Drs A. Haines and W. Howard Sir.—It is unclear if Sir Geoffrey Howe and the Government have a coherent policy for nuclear arms control following the report of his speech (March 18). Whatever the propaganda element of the Gorbachev proposals — no doubt substantial — what matters are the specific points which might coincide with interests of Britain, Nato and "common security." Britain should act now to reopen the trilateral negotiations with the US and USSR for a comprehensive treaty which is Sir Geoffrey's concern over verification an excuse to do nothing or is it a clever ploy to keep the issue open — now that the US says it wants to consider a "seat at the table." How else will the increasing difficulties of relating British nuclear policy to the Geneva talks etc. be achieved? The US might desire this? What matters is whether self interest, east and west, can find common ground in new controls over nuclear weapons.

A levy on tapes

From Mr J. Harrington Sir.—Lord Wilson (March 14) may have a worthy cause for his proposed tape levy. The relationship between the worthy cause and the taxing process seems to me rather tenuous. Tape libraries may be built up, I seriously question if many people ever watch the tapes they have in their libraries more than once. Tape copies may be made and given away or loaned. Does this hurt the sales of pre-recorded tapes? Not the copier would not have paid for a pre-recorded tape. If it hurts any group, it hurts the video rental store who would otherwise have rented more tapes. Do I hear any calls for a levy to be split by those stores? How many tapes are made of copies of the British films that Lord Wilson cherishes? If a significant amount of taping is of American movies does he support the payment of the levy to the US producers? If a significant amount of taping is done of Wimbledon each June, should a chunk of the tape levy go to the AELF&CC? If a significant amount goes on copying smuggled pornography, should part of the levy go to the porn producers? If a significant proportion goes on creating archives of BBC or ITV series, should a portion go to them? If Lord Wilson wants £20m to go to his council, he could get a friendly commissioner to nudge the Chancellor into assigning the tape levy to the public's interest in even interest in British films. It would also create an expensive bureaucracy to collect it and a crowd

of whining "good causes" all wanting a piece of the pie. Jan R. Harrington PO Box 746, GPO New York, NY 10001

New homes and the green belt

From the Leader, Dorford Borough Council Sir.—I would like to make two points following your article (March 18) on the green belt. Government grants for the restoration of derelict land are targeted at the areas of highest unemployment and the areas of highest dereliction. Approximately 15 per cent of this Borough, which adjoins the M25, consists of holes in the ground but we are not eligible for grants under the existing arrangements. The DoE have their own definition of the word "Derelict." This authority has spent three years trying to get the health authority to rationalise its land holdings in this borough of 600 acres and seven hospitals. The health authority recently submitted a planning application to build a 900-house village on one site but we have no direction notices which prevents us granting planning permission on the site. Malcolm A. Nothard, (Councillor), Civic Centre, Home Gardens, Dorford, Kent.

Disenchanted with Cellnet

From Mr C. Wilson Sir.—No doubt other users of Cellnet's service are beginning to feel we have fallen into the grip of the British Telecom Mafia. Having persuaded us to buy high price equipment or take long term leases, it now increases its prices by 51 per cent for the quarterly standing charge and swinging increase on call charges. The excuse it offers is increased investment in the hardware. Setting aside few firms seek to recoup their expenditure in the first ten days of the investment, Cellnet users are only aware that despite the extravagant claim for improvements in the service, there has been a vast technical deterioration. Difficulty in getting a line at all at many times of day, constant cross lines, one way transmission and background noise making hearing impossible. In just over four weeks I logged 25 failed calls. This is the service we are now expected to pay 51 per cent more for. Clive Wilson, Hayes House Printers, Hayes Meadows, Castle Street, Llansgollen, Clwyd.

YESTERDAY'S ANSWERS TO THE FLEET PROBLEM WERE FINE — YESTERDAY.

At a time when an average fleet of one hundred cars and light vans incurs a total annual outlay of close to £400,000, it is surprising that so many businesses are looking for a new present and future way to contain vehicle costs? The problem has a perfect answer — Dial fleet contract hire.

Dial can structure an all-embracing package so streamlined that it can reduce company fleet expenditure to just two invoices a month — no matter how many vehicles you operate.

- nationalwide breakdown service and recovery
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With the Dialcard fuel payment and cost control system as part of the package, even your monthly fleet fuel and oil invoices would be supplemented by management reports analysing mileage and fuel consumption for each individual vehicle, supplemented by separate breakdowns for each of your cost centres.

Dial's services may sound like something from the world of tomorrow — but for an impressive list of major business organisations they are very much today's reality.

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INTL. COMPANIES & FINANCE

Bell Group midway profits surge

BY LACHLAN DRUMMOND IN SYDNEY

MR ROBERT Holmes a Court's Bell Group, the Perth-based industrial and investment concern, more than doubled net profits to A\$55.78m (US\$40m) in the half-year to December, up from A\$23.53m.

a less contentious offer document. Bell Group owns Associated Communications (ACC) in the UK as well as Australian interests in the media, transport and heavy equipment distribution. It included its equity share of earnings from the almost half-owned Bell Resources and from J. N. Taylor Holdings, an industrial investment offshoot, which yesterday reported a tenfold increase in net earnings from A\$609,000 to A\$6.16m for the half-year.

Genting shows its first fall in earnings for 17 years

BY WONG SULONG IN KUALA LUMPUR

GENTING, the Malaysian casino, hotel and plantation group, showed a 6 per cent fall in 1985 net profits to 101m ringgit (\$40.4m) its first reversal since it started operations 17 years ago.

Japanese retail store lifts sales and net income

BY YOKO SHIBATA IN TOKYO

MARUI Japan's largest credit sales department store, lifted unconsolidated pre-tax profits by 27.2 per cent to Y29.83bn (\$16.7m) in the year to January.

TVB performance improves

BY DAVID DODWELL IN HONG KONG

HK-TV, Hong Kong's leading television company, yesterday reported attributable profits for 1985 of HK\$232m (US\$29.7m), a 13.5 per cent improvement on 1984 profits of HK\$204.3m.

Pick 'n Pay suffers from tight margins

By Jim Jones in Johannesburg

PICK 'N PAY the South African supermarket chain, increased turnover by slightly more than inflation in the year to February but suffered from significantly narrower trading margins.

Yamaichi takes Commerzbank stake

YAMAICHI SECURITIES of Japan has bought an unspecified amount of shares in Commerzbank of West Germany, Reuters reports from Tokyo.

Singapore Land lower

BY OUR FINANCIAL STAFF

SINGAPORE LAND, one of the island's leading property development companies, has cut its earnings decline which set in last year.

Thorn EMI offshoot gains strength

BY P. C. MAHANTI IN CALCUTTA

GRAMOPHONE COMPANY of India, the local offshoot of Thorn EMI of UK, is being nursed back to health under the management set up by Mr R. P. Goenka and his merchant bankers partner, Mr Udayan Bose, after they both took charge of the company under an arrangement to provide working and development capital.

Granville & Co. Limited

Table with columns: High, Low, Ass. Bnt. Ind. Ord., Price Change, Gross Yield, P/E, Fully Actualized. Lists various stocks and their performance.

Ente Nazionale per l'Energia Elettrica (ENEL) - Guaranteed Floating Rate Notes 1993 - The Republic of Italy - S.G. Warburg & Co. Ltd. Fiscal Agent

NATIONAL BANK OF CANADA - U.S. \$50,000,000 Floating Rate Debentures due 1988 - CHEMICAL BANK INTERNATIONAL LIMITED

NOTICE OF RATE OF INTEREST FRAB-BANK INTERNATIONAL - Floating Rate Notes due 1994 - CHEMICAL BANK INTERNATIONAL LIMITED

GANNETT - U.S. \$100,000,000 - Notes Due March 12, 1996 - Shearson Lehman Brothers International - Algemene Bank Nederland N.V. Arab Banking Corporation (ABC) Bankers Trust International Limited

NIPPON STEEL CORPORATION - U.S. \$150,000,000 - 9 per cent. Notes 1993 - ISSUE PRICE: 101 1/2 per cent. - Daiwa Europe Limited, Swiss Bank Corporation International Limited, Morgan Stanley International, etc.

EAB FINANCE N.V. - Guaranteed Floating Rate Notes Due 1990 - European American Bancorp - EBC Amro Bank Limited (Agent Bank)

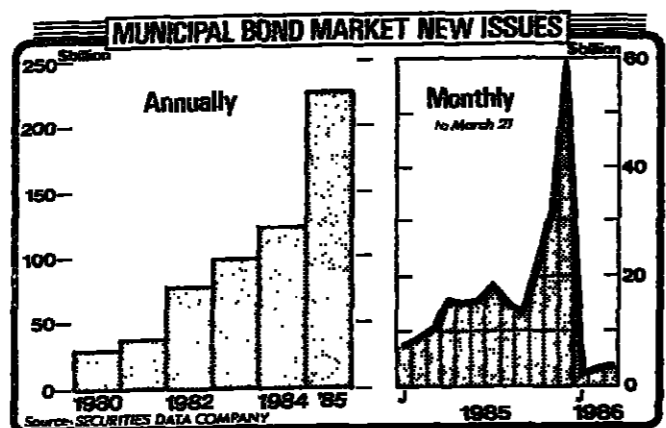
BANCO PINTO & SOTTO MAYOR - US \$40,000,000 - Negotiable Floating Rate Dollar Certificates of Deposit due 1989 - Bank of America International Limited

INTERNATIONAL COMPANIES and FINANCE

William Hall looks at the background to turmoil in the US municipal bonds market
Tax-exempt status survives another attack

NOT SINCE the default of the Washington Public Power Supply System (WPPSS) during the summer of 1983, has the US tax-exempt bond market been in such a state of turmoil as it was last week.

For a brief period last Wednesday trading in the \$700bn plus US tax-exempt bond market used by local municipalities to finance everything from housing to hamburger stands, came to a complete halt.



The second factor is the huge US budget deficit. As Congress grapples with ways to trim spending and raise revenues, the tax-exempt bond market is a natural target.

Senator Packwood, who has had more than a little encouragement from the US Treasury, has decided that the time is ripe to challenge one of the sacred cows of the US financial system.

He is convinced that the tax exempt bond market is being used by the wealthiest Americans to shelter their income against taxes. He estimates that some 80 per cent of all tax exempt interest is received by individuals with minimum incomes of \$100,000.

Senator Packwood's proposal to make interest on new and existing issue of tax-exempt bonds subject to taxation is an upsurge.

Until the impact of the US tax reform plan on the tax-exempt market is clarified, new issue volume is likely to continue at current abnormally low levels, and investors are likely to remain cautious.

Further easing on Euroyen issues

By Yoko Shibata in Tokyo

THE JAPANESE Ministry of Finance is further to liberalise the issue of Euroyen bonds from April 1, in order to fulfil a pledge to the US made in the wake of the bilateral agreement on exchange rates in May 1984.

As part of the new measures: Three Japanese credit agencies - Nikko Koshuashi, Joke, Japan Credit Rating Agency, and Nippon Investors Services - will qualify as rating agencies for Euroyen bonds in addition to Standard & Poor's and Moody's of the US.

Buyers trickle back to Eurodollar sector as dollar strengthens

BY CLARE PEARSON

THE STRENGTH of the dollar on the foreign exchange gave a boost to the Eurodollar bond market yesterday, and four issues were launched.

Some dealers felt that, though issues were moving slowly, selective retail buying interest was returning as investors adjusted to fixed rate bonds with coupons of around 8 per cent. Japanese institutions were the main buyers, as the new deals had payment dates after the Japanese fiscal year-end.

while Restaurant Seibu's issue was bid at 113 1/2. Following last week's issue for Manufacturers Hanover, which pays interest at 1 1/2 per cent over three-month Libor, Merrill Lynch brought another US bank, Norwest, to the dollar floating rate note market.

The \$100m 12-year issue, priced at par, pays 1 1/2 per cent over six-month Libor and has front-end fees of 60 basis points. The issue has a borrower's call option from the third year onwards. Demand was said to come chiefly from Japanese investors. The bonds traded within the fees.

Study clears futures trading of distortion

BY ALEXANDER NICOLL

A STUDY commissioned by US exchanges into the effects of stock index futures and options on underlying equity prices has backed the contention that they do not cause unwarranted distortions on expiry dates.

The study was commissioned by the National Association of Securities Dealers, which operates the US over-the-counter share market, the Chicago Board Options Exchange, and the New York, American, Pacific and Philadelphia stock exchanges. All trade index options.

Heavy trading on such days is caused by huge buying or selling programmes associated with arbitrage. Securities houses enter orders for every stock in an index in order to complete arbitrage positions set up when they perceive anomalies between the levels of the stock market and futures or options prices.

Expiration is pushing prices down or to buy when an expiration is pushing prices up may be hurt. But they could equally be helped by the phenomenon.

Merrill Lynch acts to deter predators

By Our New York Staff

MERRILL LYNCH, the world's biggest brokerage firm, is following the footsteps of BankAmerica Corporation and Chase Manhattan and plans to introduce some powerful measures to deter hostile predators.

PHILIPS N.V. PHILIPS' GLOEILAMPENFABRIEKEN (Incorporated with limited liability in The Netherlands) U.S. \$100,000,000 8 3/4 per cent. Bonds due 1996 Issue Price 100 per cent. EBC Amro Bank Limited, Credit Suisse First Boston Limited, Morgan Guaranty Ltd, Algemene Bank Nederland N.V., Bankers Trust International Limited, Banque Paribas Capital Markets Limited, Barclays Merchant Bank Limited, Baring Brothers & Co., Limited, Chase Manhattan Limited, Commerzbank Aktiengesellschaft, Credit Lyonnais, Daiwa Europe Limited, Dresdner Bank Aktiengesellschaft, IEJ International Limited, Kredietbank N.V., Morgan Grenfell & Co. Limited, Morgan Stanley International, Nomura International Limited, Swiss Bank Corporation International Limited, Union Bank of Switzerland (Securities) Limited, S.G. Warburg & Co. Ltd. March, 1986

Among other measures proposed are the introduction of a staggered election of directors and a rule that special shareholder meetings can be called only by a majority of the board.

Merrill says the proposals will discourage disruptive tactics by a potential suitor and will encourage any suitor to negotiate with the Merrill board which will be in a better position to protect the interests of all the stockholders.

Merrill does not know of any stockholder who currently controls 5 per cent or more of the company's shares. Although aware of recent rumours that it may be bid for by Quotron, a computerised financial information firm which has caused considerable consternation among some of Quotron's customers, several of whom are major competitors of Citicorp, America's biggest banking group.

Merrill Lynch, which earned \$224.3m on revenues of \$7.1bn last year, is less profitable than some of its peers in the brokerage industry and its return on equity has slipped from 20 per cent-plus in the early 1980s to 5 per cent in 1984. Last year it recovered to 10.5 per cent, but this is still lower than average and has made the firm vulnerable to a possible takeover, say analysts.

Daewoo Heavy plans issue of convertibles

Daewoo Heavy Industries said yesterday that Nomura International and Comman Sachs International would be lead managers for an issue of convertible Eurobonds in the next few months. Steven E. Butler reports from Seoul.

FT INTERNATIONAL BOND SERVICE

Listed are the 200 latest international bonds for which there is an adequate secondary market. Closing prices on March 25

Table with columns for Country, Issued, Bid, Offer, Change on day, and Yield. Includes sections for US DOLLARS, OTHER STRAIGHTS, DEUTSCHE MARK, SWISS FRANC, and YEN STRAIGHTS.

UK COMPANY NEWS

Prudential Corp. expands by 40%

PRE-TAX profits of Prudential Corporation climbed by nearly 40 per cent in 1985 from £72m to £108.6m, with attributable profits almost 70 per cent higher at £76.1m, against £45.2m in 1984.

The general insurance business showed an overall improvement with underwriting losses cut by almost one-fifth from £181.4m to £131.6m and the trading loss by a third from £78.2m to £53.4m.

There was a sharp deterioration in the profitability of overseas general insurance operations, with Canadian business moving from an £8m trading profit to a £6.8m trading loss.

at a lower level, of 1984's special life transfer as the Pru smooths the way to future more stable life profits.

AB Elect falls to £3m in first half

HIGHER depreciation and finance charges resulted in a fall in pre-tax profits by AB Electronic Products Group from £3.42m to £3.04m in the six months to the end of December 1985.

All change at Charing X.

Today's hospitals are about symptoms and illness. We want to change all that. Charing X Medical Research Centre is about causes and health.

CHARING CROSS MEDICAL RESEARCH CENTRE APPEAL. A hundred pounds to make patients more comfortable is soon completely used up. The same hundred pounds directed at rooting out a disease may never be used up.

Restructuring costs depress Rockware

EXCEPTIONAL costs of nearly £2.5m have severely depressed Rockware, the glass manufacturer, in the 1985 year. Pre-tax profits tumbled from a restated £3.17m to just £61,000, and the company's shares fell 12p to 38p.

In glass, the principal activity in the second half showed a sizeable gain, but the results were "dominated by the problems of excess capacity, our own and that of the industry," according to Sir Peter.

competitors are facing actual or potential change of ownership. The New Zealand entrepreneur Mr Ron Briley has a 5 per cent stake in Rockware and a near 25 per cent stake in Redfearn National Glass.

ing level, where profits were slightly higher despite difficult markets. Indeed, given the dwindling glass prices and increases in capacity, Rockware need not be ashamed of an 11 per cent decline in glass profits.

Canning hit by interest charges

W. Canning, the Birmingham-based manufacturer of a wide range of specialty chemicals, metals and electronics, suffered a setback in the second six months of 1985 and for the full year saw its profits fall by 79,000 to 1.86m.

The chemical companies meted the strong performance of the year, but the exception of the US subsidiary Marston Bentley where order cancellations resulted in a greatly increased loss.

the prospect of a fully fledged bid, shaved just 5p off the share to 125p. Canning implemented stringent cuts in the early 1980s and returned to the scrapheap as soon as a trouble loomed last year.

Manson Finance

Manson Finance Trust, a financial services company, reports slightly higher taxable profits of £576,000, against £578,000 (profit £2.81m) in 1985.

Earnings per share, after tax of £259,000 (£282,000), improved by 0.2p to 14p. The interim dividend is up from 0.625p to 0.75p.

Beazer on target with 61% rise

C. H. Beazer (Holdings), the housebuilder, property developer and contractor which won control of French Kier construction group in January after a fierce contest, has announced a 61 per cent jump in pre-tax profits for the six months ending December 1985.

The subsidiary is passing its final dividend leaving shareholders with 0.5p (1.25p) for the year.

Kier was another step towards fulfilling Mr Brian Beazer's ambition of turning the West Country housebuilder into tomorrow's Tarmac.

M. Box swaps packaging interests with Carnaud

Metal Box has ended a seven-year-old cross-shareholding arrangement with the French packaging company Carnaud SA.

Italian and Greek subsidiaries. Following the restructuring Metal Box will hold 99.9 per cent of the Italian company and 93.4 per cent of the Greek company.

The Kuwait Investment Office has lifted its stake in Beazer Developments, the house builder, to 11.8 per cent.

A & G's chairman sells his 51% stake to Halma

Halma, the security and safety systems group, has agreed to acquire 51 per cent of A & G Security Electronics, the burglar alarm producer, from its chairman Mr Gerard McNamara for about £2.8m.

company at about £5.6m if the cash alternative of 50p a share is accepted. The share offer is 10 Halma for every 49 A & G.

EBC first acquired a stake of around 9 per cent more than two years ago, Mr James said. Barratt, which declared first half pre-tax profits of £7.52m (£4.1m) on turnover of £213.7m (£272.8m), last week, closed at 134p, up 2p.

KIO lifts stake in Barratt

The Kuwait Investment Office has lifted its stake in Barratt Developments, the house builder, to 11.8 per cent.

Earnings per 50p share surged from 6.7p to 18.9p and final dividend of 4.5p lifts the net total by 1.55p to 7.15p. A scrip issue on a one-for-four basis is also proposed.

EBC tops £1m

Pre-tax profits of the EBC Group expanded from £382,000 to £1.12m in 1985 from turnover £11.89m ahead at £56.17m.

Interest charges rose by £78,000 to £478,000. The group provides management services to companies engaged in the construction industry. Its share are traded on the USM.

EBC tops £1m

Pre-tax profits of the EBC Group expanded from £382,000 to £1.12m in 1985 from turnover £11.89m ahead at £56.17m.

BRITISH AEROSPACE



1985 "A significant year for British Aerospace"

Table with 3 columns: Results for 1985, 1985 (£m), 1984 (£m). Rows include Turnover (2,648 vs 2,468), Trading profit (180 vs 166), Launching costs written off ((52) vs (51)), Net interest receivable (19 vs 4), Profit before taxation (150 vs 120), Profit after taxation (127 vs 108), Earnings per share (net basis) (56.4p vs 53.5p), Dividends per share (net) (15.8p vs 13.65p).

Sales at £2,648 million increased by 7.3% over the previous year's figure of £2,468 million. Exports accounted for 61% of total sales. The outstanding order book at the end of 1985 was valued at £5,138 million* as compared with £4,820 million at the end of 1984.

...up where we belong. Sir Austin Pearce, Chairman. BRITISH AEROSPACE. British Aerospace Public Limited Company, 100 Pall Mall, London SW1Y 5HR.

FT COMMERCIAL LAW REPORTS

Import ban on patented drug justified by public interest

IN RE AN APPLICATION BY GENERICS (UK) LTD... Chancery Division, Mr Justice Whitford, March 17 1986... WHEN SETTLING terms of licence...

the Patents Act 1977... Generics applied to the Comptroller for licences... Lord Diplock said at page 63...

concluded agreements with other companies to grant licences to manufacture or supply... A question arose as to whether it would be right in fixing the royalty...

By Rachel Davies, Barrister... ruling from the European Court... Mr Walton, for Generics, argued by analogy with the case of Pathe's Patent (1963)...

AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Abbey Unit Trust, Abbey Fund Managers Limited, Abbey Unit Trust, etc. with columns for name, address, and other details.

APPOINTMENTS

Dalgety forms cereal division

DALGETY UK has appointed Mr E. C. Humphreys as chief executive of a newly-formed cereals division...

Brown will become chief executive for the home-baking businesses of Spillers Homegrids...

bridge Electronic Industries. He succeeds Mr John Hines who retired in 1982...

F.T. CROSSWORD PUZZLE No. 5,982

Crossword puzzle grid with numbers 1-31 indicating starting positions for clues.

- ACROSS: 1 Beg a copper to ring (6), 2 Risk lose arrangement, all for sport (3-5), 3 A land bird (4), 4 A French male carrying dope made to strip (8), 5 Fifty are to work on the Rio Grande (6), 6 Form of protection for actor in a play (8), 7 'X' has clear backing (3), 8 An Irishman's occupied by fashionable colours (6), 9 This causes the listener some distress (7), 10 Clothed—and owing in consequence (6), 11 Churchill's holding over brief (3), 12 She leads maybe, though lacking the brains (6), 13 Cook's supporter in English (6), 14 Letters of identification (8), 15 Writing the hotel a note is quite natural (6), 16 True as can be about valuables (8), 17 Regret taking exercise in break (6), 18 back is provoking (6), 19 Not one over? That's the idea! (6), 20 Has the wrong jacket (6), 21 Cuts in discounts (7), 22 The instrument was returned (3), 23 An article some people consider most helpful (3), 24 Charm will ensure entry! (8), 25 Think alcoholic liquor in tea rather peculiar (8), 26 He'll follow a hollow woman inside (8), 27 The economy calls for a little growth (6), 28 Foreign writer who may be put in care (6), 29 A pupil tells stories to make mischief (6), 30 An innkeeper found this man stable employment (6), 31 Solution to Puzzle No. 5,981

At LINKLATERS & PAINES Mr Alan Barker, Mr Raymond Jeffers, Mr Stephen Boughton, Mr Christopher Johnson-Gilbert, Mr Michael Cash, Mr Keith Thompson, Mr Anthony Grundy, and Mr Tom Wethered will be joining the partnership on April 28...

ROYAL INSURANCE (UK) has appointed Mr W. J. Ward and Mr W. G. Prince as assistant general managers.

Mr John Greenwood has been appointed financial director and company secretary of WILTSHER CONSTRUCTION part of the John E. Wiltshire Group.

H. H. PEGG has appointed Mr B. R. Urquhart to the board. He joined as a director of Pegg Board Sales in November 1984.

Mr Brian Edgeley has been appointed managing director of LAW FUTURES. He succeeds Mr John Hughes. Mr Nat Le Roux has been appointed to the board and will continue to head the research department.

Mr Mike Smith has been appointed managing director of the UK retail division of LAURENCE ASHLEY. He will join the main board of Laurence Ashley Holdings from the beginning of April...

Mr Colman Cooke has been appointed marketing director of PARK TONKS, Abington. He will have special responsibility for marketing a range of sprays, deodorants, and perfumes...

HUNT UNITED CORPORATION has appointed Mr James Webb as president. He succeeds Dr Ian Maycock, who has transferred to Dallas, Texas...

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Vertical text on the left margin: March 26 1986, £47m, raging, comment, Crowder's, Goal profits, ride but, favour held, consumption, Goal profits, ride but, favour held, consumption, Goal profits, ride but, favour held, consumption...

AUTHORISED UNIT TRUSTS & INSURANCES

Main table containing financial data for various unit trusts and insurance companies, including columns for company names, fund names, and numerical values.

INSURANCES

Table listing insurance companies and their associated unit trusts, including details like company names and fund identifiers.

Table listing various insurance policies and financial products, including details like policy numbers, amounts, and company names.

INSURANCE, OVERSEAS & MONEY FUNDS

Table of financial data for various insurance and overseas funds, including columns for fund names, values, and changes.

Main table of financial data for insurance, overseas, and money funds, organized in multiple columns with fund names, values, and changes.

Table of financial data for money market bank accounts, including columns for bank names, account types, and interest rates.

Table titled 'OFFSHORE AND OVERSEAS' listing various international investment funds and their performance.

Table titled 'TRADITIONAL OPTIONS' listing various traditional investment options and their characteristics.

COMMODITIES AND AGRICULTURE

Malaysian tin price deadlock continues

THE KUALA LUMPUR Tin Market is not likely to resume the posting of prices for at least a month because of a new rule which requires daily turnover of at least 10 tonnes, dealers said, reports Reuter from Kuala Lumpur.

WEEKLY METALS

All prices as supplied by Metal Bulletin. ANTIMONY: European free market, 96.6 per cent, \$ per tonne, in warehouse, 2,670-2,720.

US Farm Act under fire at FAO rice meeting

BY RICHARD MOONEY

THE RECENTLY-SIGNED US Farm Act has come under fire at the UN Food and Agriculture Organisation's International Rice Conference meeting in Rome.

Smelters face copper shortage

A SHORTAGE of copper concentrate is expected this year and smelters and processors are likely to have a hard time, the Inter-Governmental Council of Copper Exporting Countries (Cipec) said in its latest report.

several general recommendations including: Governments should make special efforts to minimise recourse to export aids and to avoid price undercutting and distortions of normal trade patterns.

COUNCILS ATTACKED OVER CONSERVATION

LOCAL AUTHORITIES are a fundamental part of nature conservation in Britain, but a "disappointingly low number" have used their discretionary powers during the past 26 years to safeguard the environment and its wildlife, says a report.

LONDON MARKETS

STERLING'S continued weakness against the dollar encouraged a general rise in prices on the London Metal Exchange. Copper was the main beneficiary with the cash high grade quotation adding \$10.50 to Monday's \$11.50.

INDICES FINANCIAL TIMES

Mar. 25 Mar. 24 Mth ago Year ago Mar. 25 Mar. 24 Mth ago Year ago (Base July 1982=100)

US MARKETS

PRECIOUS METALS were unable to hold on to early gains associated with the US/Libyan sidrimites as dollar strength eroded values and losses were increased late in the session by activated stops, reports Helms Commodities.

NEW YORK

ALUMINIUM 40,000lb, cents/lb Prev Close High Low Prev March 82.95 87.36 89.90 82.95

MAIN PRICE CHANGES

Mar. 25 + or Month 1986 - or ago

REUTERS

Mar. 25 Mar. 24 Mth ago Year ago Mar. 25 Mar. 24 Mth ago Year ago (Base July 1982=100)

CHICAGO

LIVE CATTLE 40,000 lb, cents/lb Prev Close High Low Prev April 59.20 59.50 59.45 59.10

COCAOA

COCAOA 10 tonnes, \$/tonne Prev Close High Low Prev May 1916 1956 1983 1932

SOYABEAN MEAL

SOYABEAN MEAL 100 tonnes, \$/tonne Prev Close High Low Prev April 158.15 157.4 155.4 157.9

CRUDE OIL

CRUDE OIL (LIGHT) 42,000 US gallons, \$/barrel Prev Close High Low Prev May 34.35 34.70 34.15 34.35

Andrew Gowers on moves to tighten up market regulations

US exchanges resist the red tape

THE LATEST trial of strength between the big, politically powerful, US commodity exchanges and the federal agency which watches over them appears to be drawing to a conclusion.

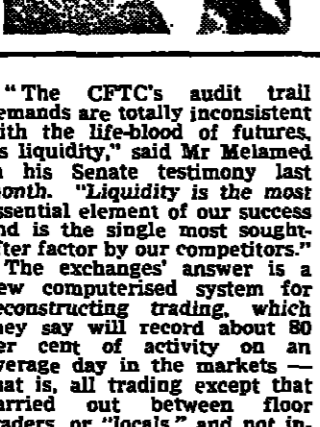
forced to back off following vociferous complaints from the exchanges. The exchanges, which currently record trades to the nearest half-hour, argued that implementation of the one-minute rule was simply not feasible for all trades without interfering to a harmful extent with the fast and furious activity on their markets.

times. "Our industry is hostage to an agency that is inexperienced and reacts from fear—fear of public perceptions, fear of criticism. On the part of the press, fear of reprisals by other federal agencies or their staffs," said Mr Melamed.

When the rule was published in July 1 to submit their proposals in detail, and are supposed to implement the system by October 1, though there is some feeling that this deadline may have to slip.

But on both the key issues about which the exchanges were protesting last month—a distinct lowering of the temperature has been evident in the past couple of weeks.

Mr John Gilmore (right), chairman of the Chicago Board of Trade, complains that exchanges are "threatened by a series of regulatory assaults, and by an undermining mentality".



For one thing, the CFTC is a very young body, founded only 12 years ago; for another, the futures industry has changed beyond all recognition since the Commission's inception—from a somewhat hazy, unregulated one to one which has more affinities with mainstream financial services business.

There's a lot of pushing and shoving between the two agencies. They're "testing each other," observed Mr Dan Glickman, a Kansas Congressman who follows these issues closely through this many years ago.

On record keeping in the markets, the exchanges and the Commission are now pledged to work together in developing a better system. On capital rules the CFTC has given the exchanges until April 5—several months beyond its initial deadline—to prepare their positions and is showing signs of greater flexibility than before.

for comment some months ago outrage was once again the reaction of the exchanges. They predicted that a substantial number of their members could be driven out of business if the rule were implemented. The Board of Trade has proposed an alternative rule, which, rather than imposing an across-the-board capital increase, would base minimum capital requirements on risks associated with open positions in individual customer accounts.

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There's a lot of pushing and shoving between the two agencies. They're "testing each other," observed Mr Dan Glickman, a Kansas Congressman who follows these issues closely through this many years ago.

After all the shouting, hours of explanations by exchange officials, and a clear instruction from Congress to the two sides to resolve the row between themselves, the Commission agreed to have a dialogue that this system might work. In public, commissioners tend to describe it as "promising" but they have also apparently assured the exchanges that they will not interpret their rules too narrowly. Mr John Sander, chairman of the Mercantile, described discussions with the CFTC last week as an "extremely constructive dialogue". The exchanges now have un-

derstanding of the market. The exchanges, which currently record trades to the nearest half-hour, argued that implementation of the one-minute rule was simply not feasible for all trades without interfering to a harmful extent with the fast and furious activity on their markets.

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WHEAT

WHEAT Yesterday's + or Business Done

SUGAR

LONDON DAILY PRICE—Raw sugar \$197.00 (174.50) up \$15.00 (up \$12.00) a ton for March 26/86.

SOYABEAN MEAL

Prices opened firmer on good trade news and weaker selling but pressure of lower outside markets and lack of follow-through buying limited the gains.

GRAINS

Old crops traded steady in very poor volume, while new crops attracted keen buying, with anti-profit-taking and merchant hedge selling, reports T. G. Roddick.

COFFEE

In a high volume of trade the market was restricted to a 48¢ range. Trade and commission houses were both active in the market and physical interest below the market limited any falls reports Dixiel Burnham Lambert.

MEAT

Pigmeat sales: 7 (12) lots of 50 carcasses, 3,250 kg.

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SOYABEAN MEAL 100 tonnes, \$/tonne Prev Close High Low Prev April 158.15 157.4 155.4 157.9

Handwritten notes and scribbles on the right margin of the page.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Short covering boosts dollar

The dollar rose sharply in currency markets yesterday as a turnaround in sentiment prompted heavy short covering. Demand was also attributed to stop loss buying as earlier positions, taken on the assumption of a lower dollar, were closed in order to minimise losses.

£ IN NEW YORK

Table showing exchange rates for £ in New York, including columns for Close, Mar. 25, and Prev. Close.

FINANCIAL FUTURES

Bonds below best

Dollar denominated contracts were steady to firm on the London International Financial Futures Exchange yesterday, but finished below the best levels.

FOREIGN EXCHANGES

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POUND SPOT—FORWARD AGAINST POUND

Table showing pound spot and forward rates against the pound, including columns for Date, Bid, Ask, and % change.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

Table showing dollar spot and forward rates against the dollar, including columns for Date, Bid, Ask, and % change.

CURRENCY MOVEMENTS

Table showing currency movements for various countries, including columns for Country, Rate, and % change.

CURRENCY RATES

Table showing currency rates for various countries, including columns for Country, Rate, and % change.

FINANCIAL FUTURES

Table showing financial futures data, including columns for Contract, Price, and % change.

OTHER CURRENCIES

Table showing other currency rates, including columns for Country, Rate, and % change.

EXCHANGE CROSS RATES

Table showing exchange cross rates for various currencies, including columns for Currency, Rate, and % change.

STERLING INDEX

Table showing the sterling index, including columns for Date, Index, and % change.

EURO-CURRENCY INTEREST RATES

Table showing euro-currency interest rates, including columns for Term, Rate, and % change.

MONEY MARKETS

Interest rates were slightly firmer on the London money market yesterday, as dealers appeared to rule out any further reduction in clearing bank base rates in the immediate future.

FT LONDON INTERBANK FIXING

Table showing FT London interbank fixing rates, including columns for Term, Rate, and % change.

LONDON MONEY RATES

Table showing London money rates, including columns for Term, Rate, and % change.

MONEY MARKETS

Base rate hopes fade on Opec and pound. Interest rates were slightly firmer on the London money market yesterday, as dealers appeared to rule out any further reduction in clearing bank base rates in the immediate future.

NEW YORK RATES

Table showing New York rates, including columns for Term, Rate, and % change.

MONEY MARKETS

Base rate hopes fade on Opec and pound. Interest rates were slightly firmer on the London money market yesterday, as dealers appeared to rule out any further reduction in clearing bank base rates in the immediate future.

London Commodity Charts - for clear presentation - for the ability to update your own charts. Includes contact information for London Commodity Charts at 28 Panton Street, Cambridge, CB2 1DE.

ANNOUNCEMENT FROM EREGLI IRON AND STEEL WORKS CO. ERDEMIR, TURKEY. Includes details about tender documents and company information.

PHs VAN OMMEREN NV Rotterdam, The Netherlands. 6 3/4% Bearer Bonds of 1986/1994. Includes company logo and detailed information about the bonds and the bank.

March 28 1966

Handwritten note in Arabic script at the top center of the page.

INDUSTRIALS—Continued

Table of industrial stocks including Alcoa, Amstar, and various other manufacturing companies with columns for stock price, price change, and volume.

LEISURE—Continued

Table of leisure-related stocks such as Leisure World, Leisure World of America, and Leisure World of Florida.

PROPERTY—Continued

Table of real estate and property-related stocks including American Realty, American Realty Trust, and others.

INVESTMENT TRUSTS—Cont.

Table of investment trusts such as American Mutual, American Mutual Fund, and various other investment vehicles.

FINANCE, LAND—Cont.

Table of financial and land-related stocks including American Finance, American Finance Corp, and others.

MINES—Continued

Table of mining stocks such as American Mines, American Mines & Minerals, and various other mining companies.

MOTORS, AIRCRAFT TRADES

Table of motor and aircraft trade stocks including American Motors, Ford Motor, and various other automotive companies.

Commercial Vehicles

Table of commercial vehicle stocks such as American Truck, American Truck & Trailer, and others.

SHOES AND LEATHER

Table of shoe and leather stocks including American Shoe, American Shoe & Leather, and others.

OIL AND GAS

Table of oil and gas stocks such as American Oil, American Oil & Gas, and various other energy companies.

DIAMOND AND PLATINUM

Table of diamond and platinum stocks including American Diamond, American Diamond & Platinum, and others.

NEWSPAPERS, PUBLISHERS

Table of newspaper and publishing stocks such as American Newspaper, American Newspaper & Publisher, and others.

PAPER, PRINTING, ADVERTISING

Table of paper, printing, and advertising stocks including American Paper, American Paper & Printing, and others.

SOUTH AFRICANS

Table of South African stocks such as Anglo-American, Anglo-American Corp, and various other companies from South Africa.

TEXTILES

Table of textile stocks including American Textile, American Textile & Apparel, and others.

MISCELLANEOUS

Table of miscellaneous stocks such as American Miscellaneous, American Miscellaneous Corp, and others.

INSURANCE

Table of insurance stocks including American Insurance, American Insurance Corp, and various other insurance companies.

PROPERTY

Table of property-related stocks such as American Property, American Property Trust, and others.

TRUSTS, FINANCE, LAND

Table of trusts, finance, and land-related stocks including American Trust, American Trust & Finance, and others.

PLANTATIONS

Table of plantation stocks such as American Plantation, American Plantation Corp, and others.

OVERSEAS TRADERS

Table of overseas trader stocks including American Overseas Trader, American Overseas Trader Corp, and others.

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Table of leisure-related stocks such as Leisure World, Leisure World of America, and various other leisure companies.

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Notes and footnotes at the bottom of the page providing additional information and disclaimers.

LONDON STOCK EXCHANGE

RECENT ISSUES

MARKET REPORT

Account Dealing Dates
Option
*First Declara- Last Account
Dealings Dealing Day
Mar 10 Mar 26 Mar 27 Apr 7

Shares and bonds fall sharply in oil sensitive markets

Shares prices dropped sharply for the second successive session and Government bonds also encountered downward pressures. The confidence which has featured both investment sectors for many weeks waned as falling oil prices induced fresh weakness in the exchange rate which in turn, removed any hope for a while of lower interest rates.

Oil prices fell sharply to 58p, after closing only a net 2 cent at 58p. Above the worst in places. Blue Chip fell 14p to 58p. Standard Chartered's annual figures were above most market expectations and the shares rallied from an initial dull level of 58p to 54p, before closing only a net 2 cent at 54p.

FINANCIAL TIMES STOCK INDICES

Table with columns: Index, Mar 25, Mar 24, Mar 23, Mar 22, Mar 21, Mar 20, Mar 19, Mar 18, Mar 17, Mar 16, Mar 15, Mar 14, Mar 13, Mar 12, Mar 11, Mar 10, Mar 9, Mar 8, Mar 7, Mar 6, Mar 5, Mar 4, Mar 3, Mar 2, Mar 1, 1985. Rows include Government Securities, Fixed Interest, Ordinary, Gold Mines, etc.

HIGHS AND LOWS

Table with columns: Index, High, Low, Since Completion, INDOES, Mar 24, Mar 21. Rows include Govt. Secs., Fixed Int., Ordinary, Gold Mines.

SE ACTIVITY

Table with columns: Index, Mar 24, Mar 21. Rows include Govt. Secs., Fixed Int., Ordinary, Gold Mines.

Several big lines of leading stocks came under attack and were absorbed on the way down. The two main indices slumped throughout the morning with sentiment deteriorating further on latest reports of the Middle East hostilities between the US and Libya. Around mid-afternoon prices tried to recover but the movement was short-lived.

Oil prices fell sharply to 58p, after closing only a net 2 cent at 58p. Above the worst in places. Blue Chip fell 14p to 58p. Standard Chartered's annual figures were above most market expectations and the shares rallied from an initial dull level of 58p to 54p, before closing only a net 2 cent at 54p.

Combined English flat

Widespread profit-taking was again the order of the day among leading retailers, and as on Monday, losses of 4p. Laporte lost 5p at 395p, as did Wards Stores at 275p, while Allied Colloids gave up 7p at 178p. The share price index fell 14p to 168p, after disappointing half-year figures. Arneft softened a couple of pence to 54p despite news of reduced losses, but B&S were marked 20 higher to 175p in reply to the good annual results and proposed scrip issue.

Smith St Aubyn up

Discount House Smith St Aubyn provided some colour in an otherwise dull banking sector, with shares up 1p to 125p, while the agreed share-exchange counter bid from King and Skaxson, 6 lower at 190p. The major clearers, however, succumbed to profit-taking for the third consecutive session. Barclays dropped 18 further to 539p and

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

Table with columns: EQUITY GROUPS & SUB-SECTIONS, Index No., Day's Change, etc. Rows include CAPITAL GOODS, BUILDING MATERIALS, CONTRACTING, etc.

FIXED INTEREST

Table with columns: PRICE INDICES, Tenor, Day's Change, etc. Rows include British Government, Insurance, etc.

There was no respite for an oil sector still suffering from the effects of OPEC's failure to agree on a production cutting formula and the adjournment of the Geneva meeting to April 15.

The leaders opened sharply lower and, apart from a short-lived rally around midday, continued to lose ground throughout the session. BP retreated 13 more to 54p, while Shell lost 10 to 75p, while British Petroleum fell 5 to 185p. LAMSO, initially following the preliminary results, which were a shade better than expected, but later succumbed to the general market trend and dropped to a year's low of 115p before picking up late to close a net 7 off at 125p.

The uninspiring full-year figures from British Aerospace unsettled Motor Components. Leases scheduled to announce interim results today, closed 13 lower at 615p, while Dowty, 216p, and AE, 170p, eased 6 pence. A couple of bright spots emerged, however, in Supra, which hardened a few pence to 63p awaiting today's annual results, and Jones Woodhead which touched 53p before settling a net 11 higher at 50p following a bid approach. Distributors were mixed. Tover Kemsey and Millhouse, currently bidding for Kenning, advanced 9 more to 129p, but profit taking left T. Cowie 8 cheaper at 168p. British Car Auction fell 7 to 125p after the bid statement.

Advertising agencies, supported of late in the wake of a broker's encouraging circular, encountered occasional offerings with Lew Howard-Dalrymple 11 lower to 385p awaiting today's preliminary statement. Chatwynd Streets eased a few pence to 185p while proposed merger partners Adisse Fage closed 20 down at 280p. London and Continental dipped 12 to 161p; the full-year figures are expected to be disappointing. Dials in BPC were suspended at 230p at the outset ahead of the proposed acquisition of Pergamon's publishing journal publishing business. Elsewhere in Paper/Printings, Eucalyptus slumped 42 to 436p in reaction to the extremely disappointing annual results. Publishing Properties sustained modest gains, while M&P shed 8 to 307p, while M&P reacted to 325p prior to closing 10 lower at 335p. Slammerson A settled 15 down at 450p; the price shown in yesterday's issue was incorrect. Rosehaugh, a firm market of late on Broadacre developments prospects, came by 10p to 555p, while Country and New Town, shed 8 to 125p following profit-taking.

B&E disappoints

Sizeable falls littered the miscellaneous industrial sector as profit-taking continued. British Aerospace plummeted 41 to close at the day's lowest of 565p on news of the 25 per cent annual profit increase to 150.5m, which failed to match the most recent optimistic forecasts of around the £160-£165m level. Fillingmore Bros fell 18 to 125p, after the bid statement. The preliminary profits setback derailed the recovery which had closed 12 lower at 38p, while Booker McConnell ended 5 off at 345p despite reporting preliminary earnings in line with expectations. Dealings resumed in W&L (formerly Wolverhampton Steam Laundry) following its acquisition

EQUITIES

Table with columns: Issue Price, Latest Price, High, Low, Stock, etc. Rows include BHP, Shell, BP, etc.

FIXED INTEREST STOCKS

Table with columns: Issue Price, Latest Price, High, Low, Stock, etc. Rows include American Medical Int'l, etc.

RIGHTS OFFERS

Table with columns: Issue Price, Latest Price, High, Low, Stock, etc. Rows include Alida Hys, etc.

NEW HIGHS AND LOWS FOR 1985/6

Table with columns: NEW HIGHS (110), NEW LOWS (67). Rows include AMERICANS, CHEMICALS, etc.

LONDON TRADED OPTIONS

Table with columns: Option, Apr, May, Jun, etc. Rows include B.P., Shell, BP, etc.

YESTERDAY'S ACTIVE STOCKS

Table with columns: Stock, Price, Change, etc. Rows include BHP, Shell, BP, etc.

MONDAY'S ACTIVE STOCKS

Table with columns: Stock, Price, Change, etc. Rows include BHP, Shell, BP, etc.

EUROPEAN OPTIONS EXCHANGE

Table with columns: Series, Vol., Last, etc. Rows include GOLD, SILVER, etc.

Flat yield, High and low record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, the Financial Times, Brackley House, Cannon Street, London EC4A 3DF, price 15p, by post 20p. Corrected figures for 24/3/86.

WORLD STOCK MARKETS

Main table containing stock market data for various countries including Austria, Germany, Norway, Australia, Japan, Canada, and New York. It lists stock prices, changes, and indices for different sectors and companies.



Wall Street, Montgomery Street, Threadneedle Street: all on the same wavelength. Now that the Financial Times is printed in the U.S. and available in major business centers at the start of each day...

Table titled 'NEW YORK: DOW JONES' showing stock market performance for various sectors like Industrials, Transport, Utilities, and Trading, along with a summary of the NYSE Consolidated 1500 Actives.

Table titled 'LONDON' showing chief price changes for various commodities and financial instruments, including RISKES, FALLS, and other market indicators.

Advertisement for 'It's attention to detail' featuring the Holiday Inn brand, highlighting the quality of service and facilities provided to business clients.

Advertisement for 'FINANCIAL TIMES EUROPE'S BUSINESS NEWSPAPER' with a focus on staying in Istanbul, offering complimentary copies to guests at the Divan-Hilton-Sheraton hotels.

Advertisement for 'Ghent' featuring the finest international news briefing service, providing information on the latest business and financial news.

Prices at 3pm, March 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Main table containing stock prices for various companies, organized into columns with headers like '12 Month High', 'Low', 'Open', 'Close', 'Change', 'Volume', 'Bid', 'Ask', 'Last Sale', etc. Includes sub-sections for 'DOW JONES', 'NYSE', and 'NASDAQ'.

NYSE COMPOSITE PRICES

Table of NYSE Composite Prices with columns for 12 Month High/Low, Stock, Dr, Yld, P/E, 52 Wk High, Low, and Change. Includes sub-sections for Continued from Page 38, T T T, and V V V.

AMEX COMPOSITE PRICES

Prices at 3pm, March 25

Table of AMEX Composite Prices with columns for Stock, Dr, Yld, P/E, 52 Wk High, Low, and Change. Includes sub-sections for D D D, E E E, G G G, H H H, I I I, J J J, K K K, L L L, M M M, N N N, O O O, P P P, Q Q Q, R R R, S S S, T T T, U U U, V V V, W W W, X X X, Y Y Y, Z Z Z.

OVER-THE-COUNTER Nasdaq national market, 2.30pm prices

Table of Over-the-Counter prices with columns for Stock, Sales, High, Low, Last, and Change. Includes sub-sections for A A A, B B B, C C C, D D D, E E E, F F F, G G G, H H H, I I I, J J J, K K K, L L L, M M M, N N N, O O O, P P P, Q Q Q, R R R, S S S, T T T, U U U, V V V, W W W, X X X, Y Y Y, Z Z Z.

INFLIGHT INFORMATION

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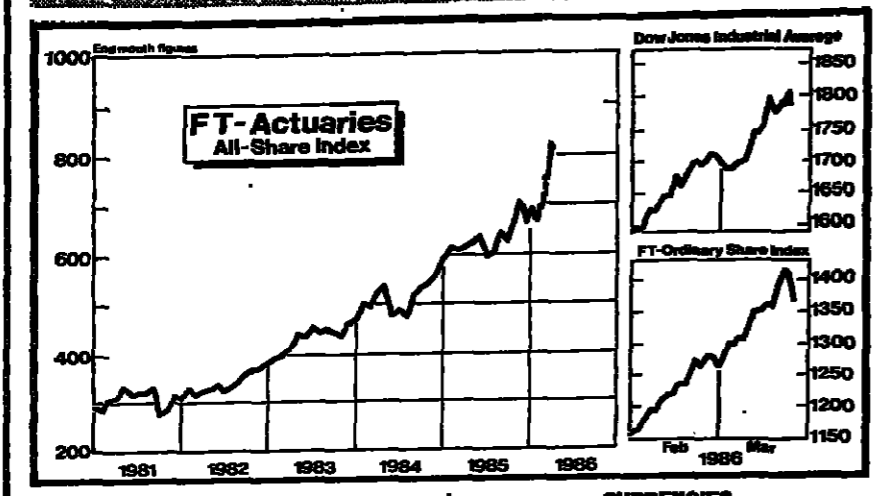
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FINANCIAL TIMES

WORLD STOCK MARKETS

MARKET MONITORS



STOCK MARKET INDICES			
	March 25	Previous	Year ago
NEW YORK			
DJ Industrials	1,776.58	1,782.33	1,258.94
DJ Transport	800.29	809.74	693.00
DJ Utilities	196.81	198.76	148.16
S&P Composite	233.95	235.33	177.97
LONDON			
FT Ord	1,364.7	1,394.6	992.0
FT-SE 100	1,533.8	1,563.9	1,237.9
FT-A All-share	798.71	808.64	632.18
FT-A 500	875.58	890.70	679.80
FT Gold mines	305.4	309.4	500.3
FT-A Long gilt	8.28	9.12	10.60
TOKYO			
Nikkei	14,826.87	14,975.33	12,493.3
Tokyo SE	1,183.06	1,192.30	1,002.07
AUSTRALIA			
All Ord.	1,168.0	1,156.8	821.2
Metals & Mins.	596.7	602.8	510.0
WEST GERMANY			
Credit Aktien	115.58	114.88	71.19
BELGIUM			
Belgian SE	3,451.04	3,447.83	2,299.60
CANADA			
Toronto Metals & Mins Composite	2,400.6	2,432.6	2,050.0
Montreal Portfolio	3,013.1	3,041.3	2,596.4
DENMARK			
SE	n/a	241.61	179.73
FRANCE			
CAC Gen	323.5	346.3	209.7
Ind. Tendence	138.5	134.4	74.0
HONG KONG			
Hang Seng	1,626.71	1,635.29	1,382.23
ITALY			
Banca Comm.	653.56	671.78	279.10
NETHERLANDS			
ANP-CBS Gen	280.4	262.9	204.5
ANP-CBS Ind	248.6	250.8	166.2
NORWAY			
Oslø SE	354.82	354.71	306.24
SINGAPORE			
Straits Times	600.68	595.98	531.26
SOUTH AFRICA			
JSE Golds	--	1,295.7	1,017.0
JSE Industrials	--	1,189.8	877.2
SPAIN			
Madrid SE	154.89	152.81	82.27
SWEDEN			
J & P	2,075.44	2,096.70	1,409.38
SWITZERLAND			
Swiss Bank Ind	581.0	581.9	426.9
WORLD			
MS Capital Int'l	301.7	301.2	201.0

CURRENCIES			
	March 25	Previous	March 25
US DOLLAR			
(London)			Previous
\$	--	--	1.482
DM	2.3985	2.2865	3.4176
Yen	180.2	178.85	263.5
FFr	7.1725	7.02	10.4875
SFr	1.959	1.917	2.865
Outsider	2.841	2.806	3.98
Lira	1,589.0	1,552.25	2,323.0
BFR	47.85	46.75	68.95
CS	1.403	1.401	2.049
STERLING			
(London)			Previous
\$	--	--	1.482
DM	2.3985	2.2865	3.4176
Yen	180.2	178.85	263.5
FFr	7.1725	7.02	10.4875
SFr	1.959	1.917	2.865
Outsider	2.841	2.806	3.98
Lira	1,589.0	1,552.25	2,323.0
BFR	47.85	46.75	68.95
CS	1.403	1.401	2.049

Source: Merrill Lynch

WALL STREET

Hostilities spark new uncertainty

THE OUTBREAK of hostilities between the US and Libya introduced a new and uncertain factor into Wall Street calculations yesterday, writes Terry Byland in New York.

Crude oil futures continued to fall on the New York Mercantile Exchange, but the stock market succumbed to a bout of bear selling. Cautious trading in federal bonds brought early gains of half a point.

At the close the Dow Jones industrial average was 4.34 down at 1,776.50. The broader market also turned down on fears of a general correction. Escalation of the Middle East conflict would threaten the slide in oil prices which has provided the spur to the US stock market boom. Traders were cautious yesterday as positions were trimmed ahead of the Easter holiday weekend.

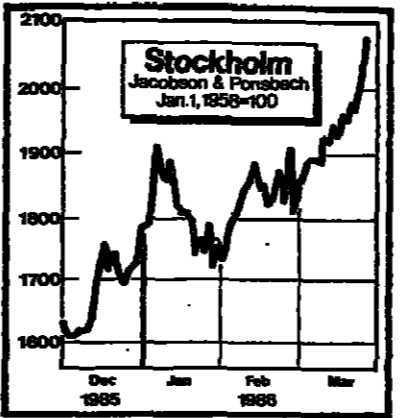
The unsuccessful conclusion to the Opec meeting again bore down on oil and the weakness of domestic energy issues brought another fall in the American Stock Exchange index. Technology stocks remained under the shadow of IBM, down a further 1% at \$147.4 after confirming the impending retirement of Mr John Opel as chairman.

But the Detroit car stocks again provided a firm lead to the remainder of the industrial sector, despite news that industry sales weakened again in early March. Initial gains were trimmed, however, leaving General Motors only 1/2% up at \$64.75 and Chrysler 3/4% up at \$45.75.

Ford, benefiting from brokerage recommendation, held on to a gain of 1% at \$82.75. Chemical stocks came in for profit-taking, which took 1% off Monsanto at \$62.75. Union Carbide shed 3/4% to \$20.75, while Du Pont, fresh from announcing a joint venture with British Telecom, eased 3/4% to \$72.75.

A fall of 0.4 per cent in the February consumer price index unsettled the retail sector. K mart, the discount store chain, lost 1 1/2% to \$42.75. J. C. Penney, 5/8% easier at \$66.75, and Federated Department Stores, 3/4% off at \$78.75, lacked supporters. The firm exception was Sears Roebuck which added 3/4% to \$47.75.

A dull airline sector was enlivened when a massive deal in Eastern stock left the shares down 3/4% at \$8.75. Pan Am shed a further 3/4% to \$8.75.



EUROPE Some peaks amid the nervousness

DOUBTS OVER world oil prices, the firmer dollar and tension between the US and Libya weighed on some European bourses yesterday, leaving them in a state of nervous tension.

France and Sweden continued to stand out from the crowd, however, registering records again on the back of optimism over local factors. Paris stretched its rise for a sixth consecutive session as the AGEFI general index put on 6.37 to a record 303.37.

Some depression was noted among oil issues, which reacted to Opec's failure to reach agreement on output. Elf-Aquitaine lost FFr 4.70 to FFr 234.80 and Total FFr 6.80 to FFr 339. But the dollar's advance assisted export-oriented foods stocks which on Monday had edged lower. BSN, the country's largest food and beverage group which has taken a 15 per cent stake in Générale Bisquit, recouped FFr 120 to end at FFr 4,140 and Perrier, the world famous mineral water supplier, picked up FFr 58 to FFr 656.

Building on the prospects for lower interest rates, construction group Bouygues added FFr 65 to FFr 1,110 and Lafarge-Coppelpe posted a FFr 80 rise to FFr 1,290. Large amounts of cash searched for investments in Stockholm yesterday, pushing the J&P share index to a peak of 2,075.44, up 38.74.

Foreigners were again active and turnover rose to SKr 481m from SKr 321m in the previous session. Among blue chips, Electrolux firmed SKr 7 to SKr 292 topping the active list, and Volvo rose SKr 13 to SKr 331. Saab Scania, which will join Boeing to develop the J77 airliner, added SKr 70 to SKr 670 and, in the forestry sector, SCA rose SKr 4 to SKr 213.

In February, foreign purchases of Swedish shares rose to SKr 1.03bn against SKr 592m in January and SKr 573m in February 1985, central bank statistics showed.

and falls were seen in all sectors as buyers remained on the sidelines. Banks continued downwards with NMB off F1 4.50 at F1 208 and ABN F1 8 lower at F1 577.

Bonds ended steady to slightly lower. Zurich blue chips rose while registered stock, which can only be bought by domestic investors, faded. Insurers and engineering issues gained, while retailers, food groups and some chemicals saw losses.

Slight profit-taking left Brussels mixed. Société Générale de Belgique added BFr 70 to BFr 2,970 after proposing to raise its dividend and seeking approval for a rights issue.

A late rally in Milan helped some issues to recoup their earlier losses. Madrid rose after its previous lower session.

DEMAND for industrials took Sydney to new peaks again and the All Ordinaries index closed 12.4 up at 1,168.0. BHP lost 6 cents to A\$6.48 in nervous trading ahead of a possible revised bid from Bell Resources, down 15 cents at A\$4.85. Bell Group, however, added 30 cents to A\$7.50 on increased interim profits.

Banks ended mixed with ANZ Group down 6 cents at A\$5.82 and Westpac also down 6 cents at A\$5.82.

BARGAIN-HUNTING gave a boost to Singapore and the Straits Times industrial index closed 14.70 up at 600.68. Banks were generally higher with DBS adding 2 cents to S\$4.52, OUB up 6 cents at S\$2.24 and Tai Lee 4 cents firmer at S\$2.00. OCBS was steady at S\$6.15. Elsewhere Cold Storage was 1 1/2 up at S\$2.45, Singapore Airlines added 15p to S\$6.70, Singapore Press was 5 cents firmer at S\$5.85, and Hong Leong Finance was 8 cents higher at S\$1.92.

PROFIT-TAKING, mainly by small investors, left Hong Kong lower. The Hang Seng index closed 8.58 down at 1,626.71. Utilities were generally lower. China Light lost 10 cents to HK\$15.20, Hongkong and China Gas was 20 cents down at HK\$12.80, and Hongkong Telephone weakened 10 cents to HK\$9.65. However, Hongkong Electric was steady at HK\$8.65.

TOKYO Dispirted by restrictions on trading THE US-Libya conflict dampened enthusiasm in Tokyo yesterday which fell again on late profit-taking, writes Shigeo Nishiwaiki of Jiji Press. Tokio Marine and Fire Insurance, Sumitomo Metal Mining and other shares that had shown good gains on Monday lost ground. Blue chips and stocks linked to the government investment and loan programme also declined in response to the turnaround. The Nikkei average dropped 146.36 points to 14,826.87. Volume also weakened from 744.90m to 640.13m shares, reflecting a cautious mood. Declines outnumbered advances by 595 to 278, with 112 issues unchanged. Institutional investors and securities companies moved to the sidelines, dispirted by stricter controls on margin trading, international tensions and the yen's slide against the dollar. After the close, the Tokyo stock exchange announced that the buying balance on margin transactions had swollen by Y104.1bn last week to a record high of Y3,083.9bn. The previous peak of

Y3,041.6bn was reached on March 16 last year. Major issues rich in hidden assets remained popular. Nippon Express topped the active list with 28.78 shares traded and closed Y18 up at Y898 after surging Y30 at one point from the previous day.

Mitsubishi Estate, second busiest with 22.75m shares traded, soared Y120 at one stage but later slackened on profit-taking, ending Y80 higher at Y1,950. Tokio Marine and Fire Insurance finished Y20 down at Y1,310 after rising Y60 in early trading. Sumitomo Metal Mining gained Y70 at one stage but closed Y90 down at Y2,080 on light profit-taking.

The late easing of these popular shares led other issues down. Nippon Yusen (NYK Line) gained Y9 to Y392 in the morning on expectations of higher international freight rates due to international tensions, but ended Y9 down at Y374 on profit-taking. Among biotechnology-related stocks, Mitsubishi Chemical Industries firmed Y21 to Y594, and Toray Industries Y35 to Y589.

Cotton spinners, main gainers on Monday on the strength of off-the-book assets, closed mixed. Toyobo added Y11 to Y374 with 13.83m shares traded, while Kurabo eased Y19 to Y411. Bond price fell sharply after the dollar's surge to above Y180 at one stage. The yield on the barometer 6.2 per cent government bond due in July 1995 climbed from 4.645 to 4.690 per cent.

However, institutional investors did not move to sell, anticipating that the Bank of Japan would soon cut its discount rate again. Inter-broker trading remained light.

LONDON Sharp fall on sterling and oil worries FALLING oil prices took London sharply lower for the second consecutive session as hopes of lower interest rates faded. The FT Ordinary index recorded its largest-ever loss in points terms of 29.9 to 1,364.7 as profit-taking set in and sentiment was further weakened by the US-Libya hostilities. Among actives P & O Defd, which reported higher profits, lost 12p to 586p. United Biscuits managed a 1p rise to 237p on news that the Government had cleared the way for it to bid for Imperial Group, down 5p to 342p. Government securities were also hit with longer bonds featuring losses extending to 2 1/2 before edging away from the day's lowest. Shorter maturities settled with losses stretching to 1/2. Chief price changes, Page 37; Details, Page 36; Share information service, Page 34-35.

CANADA THE LOWER trend on Wall Street filtered through to Toronto which traded generally weaker. Hiram Walker Resources traded 3/4 down to C\$3.34 on news of a C\$2.5bn credit facility. Elsewhere, Gulf Canada was C\$1/2 down at C\$18.74, while among active industrials Genstar traded C\$1/2 higher at C\$58 following a takeover offer from Imasco, up C\$1/2 to C\$31.74. Montreal also edged lower. SOUTH AFRICA AN EASIER trend was evident in Johannesburg ahead of the holiday weekend. Some worries over the weak rand also affected prices. Among golds Buffelsfontein slipped 50 cents to R19.50, Gold Fields closed R1 lower at R42.75, and Driefontein lost 50 cents to R55.75.

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Austria

Austria has become a byword for social consensus. Economic performance is good, but difficulties in state-owned industry show that harmony has its costs. Scandals, too, have heated up debate in an election year.

Consensus on trial

By W. L. Luetkens



Mount Schafberg viewed across the lake and township of Mondsee, gateway to one of the classic Austrian tourist areas in the Salzkammergut.

AUSTRIAN attitudes when things went wrong, as they generally did in imperial times, were summed up in a pithy little saying: "In Vienna the situation is always hopeless, but never serious."

If you listen around today, opinions differ about the degree of hopelessness. But nobody doubts that things are serious.

Look at the catalogues of bad publicity that Austria has had of late: adulterated wine; a minister disgraced for giving himself unauthorised loans from a trade union treasury; a presidential candidate accused of having belonged to Nazi organisations, which he stoutly denies.

A nationalised company plunged into huge losses aggravated by an ill-judged excursion into oil speculation; an insurance company chairman was detained on suspicion of having dipped into company funds to help his personal and political friends.

That list has obscured the image of Austria as a country of industrial peace (which it still is), of full employment (which it almost is), and of low inflation (which it also is).

All the bad news has prompted Dr Rudolf Kirchschlaeger, the generally respected President, to speak out against excesses of greed and against the revival of the entrenched attitudes of the pre-war past, when "reds" and "blacks" were not even on speaking terms. The implication was that the basic political consensus of the post-war second republic was in danger. But is it?

Competition

Clearly it is under strain. In the midst of a presidential campaign and with a parliamentary election to follow by April 1987, the political vocabulary has become extremely rough. Faced with the losses of an over-manned public sector and increasing international competition, some younger employers are beginning to wonder whether too high a price has been paid for industrial peace.

The Government of Dr Fred Sinowatz, the Socialist Chancellor, has accepted that state-owned industry has to be "re-dimensioned," the euphemism for redundancies and even closures. "Greens" in all parties are questioning traditional values.

All these are symptoms, perhaps more significant than the scandals, that the elite across the main parties which has ruled Austria since the war and to which the country owes much, has lost some of its sense of purpose. One suggestion is that things have simply become too easy: Austria has been brought from rags to riches, and its national identity has been established in the popular mind—something that the first republic (1918-38) signally failed to do.

Dr Sinowatz puts it like this: "Our vision (that of the generation which worked for these achievements) has become today's daily reality. The young take it as a matter of course."

The Chancellor adds that the political parties must find means to give younger people quicker access to political influence. Indeed, especially among the young, criticism about the system is widespread. It has been deepened by the scandals, but no less by an inability to deal with some obvious problems.

For instance, both main parties (and probably a majority of the electorate) would like to reverse the result of a referendum which, for 7½ years, has prevented the commissioning of the only Austrian nuclear power station. But they have not found a way of staging a new vote for fear of losing political points to each other and to the anti-nuclear movement.

Against that desultory backdrop some habitual pessimists are reviving memories of the 1930s. That is absurd. There are no private armies marching; there is no widespread and acute poverty; a fourth successive year of economic growth is in prospect; and the unemployment ratio of less than 5 per cent must look enviable even to the successful West Germans.

That is not to say that political passions are not running high, nor that there are no remnants to be found of authoritarian attitudes. When

foreigners uncover part of the Nazi past in Austria the popular reaction tends to be: "Why don't they leave us alone after all these years?"

Coalition

Dr Kurt Waldheim, the conservative candidate for the presidential election in May, may actually have gained in popular support when allegations, which he denied, were raised against him.

But through the shouting one can still clearly hear signals that bridges have not been broken between Government and Opposition. Neither Dr Sinowatz nor Dr Alois Mock, leader of the conservative Austrian People's Party, have ruled out the possibility of a coalition between their parties replacing the present so-called "Little Coalition" of Socialists and the small Freedom Party. There is much hankering in public opinion after the days of the People's Party/Socialist

"Grand Coalition" of the 1950s and 1960s.

The case made for renewing that successful alignment is that only such a coalition would have the stamina to deal with the problems confronting Austria. The case against is simply that without effective parliamentary opposition a Grand Coalition might muddle on, dispensing patronage and changing little. You can pay too much for consensus in political and economic rigidities.

Where are the areas where change is needed? Agreement is widespread that the budget deficit of more than 4 per cent of gross domestic product needs to be reduced; that a proliferating welfare system has to be pruned; and that nationalised industry needs to be re-organised. Inevitably there is little agreement on method.

The People's Party advocates tax cuts to tackle the deficit from the supply side; the Socialists are sceptical. The

People's Party preaches de-regulation to free entrepreneurial dynamism; again the Socialists are sceptical.

The People's Party advocates a measure of denationalisation but is not exactly Thatcherite about it. Its programme calls for a reduction of the state stake in nationalised industry while leaving control with the state. It also wants the state to run down its holding in the two state-owned banks from about 60 per cent to 51 per cent.

Agreement

Differences, therefore, are pronounced, quite apart from the rivalries built into any party system. But they are not unbridgeable if the outcome of an election should call for it. One point of inter-party agreement that is of particular interest to the outside world is that the hard currency policy long pursued in Austria, meaning that the schilling should remain stable vis-a-vis the D-

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mark, is not controversial. Even if pressures build up from the outside at some future date, great efforts will be made to keep the schilling hard.

The financial experts of the parties know that in the long run such a policy requires a consolidation of the budget without which Austrian credit in the world financial community would eventually fade.

Thus the evidence suggests that in spite of the heat of current political debate the basic consensus is retained in Austrian society. The parties are not really at daggers drawn. Labour-employer relations are rational and almost as peaceful as in Switzerland.

The shock of losses at the nationalised industries has encouraged all to think over their attitudes. Provided good intentions are put into practice, that shock may prove wholesome.

To return to the opening words about crises in Austria one might quote Dr Mock that "we are in a serious situation, but it's not a catastrophe."

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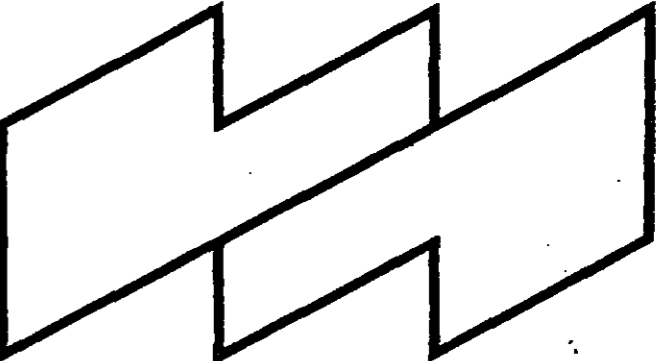
AUSTRIAN NEWS

VOEST-ALPINE: New names, new faces, a new beginning

The VOESTALPINE, Austria's largest industrial group specializing in metallurgical and finished products as well as international engineering and contracting, has a new Board of Management. The new Board assumes control of a company with more than 69,000 employees, a turnover of around US\$ 4.5 billion (1985), 50 international sales offices and trading relations with over 100 countries. We would like to take this opportunity to introduce this team to both our clients, partners and business friends.



Dr. Herbert C. Lewinsky
Company President

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Austria 2

Socialists call for self-cleansing

Politics
PATRICK BLUM

AT A time when the political scene is dominated by election fever, the popularity of Austria's ruling Socialist Party (SPO) is being seriously eroded by scandals and an increasing number of members are voicing a desire for a thorough self-cleansing of the party.

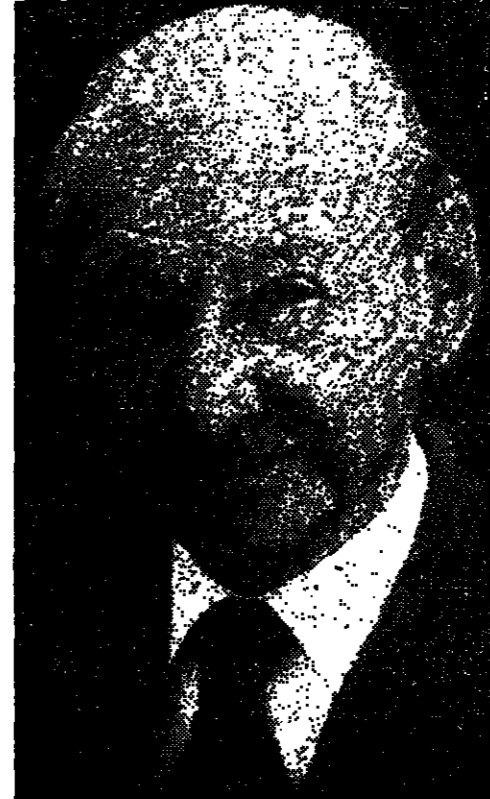
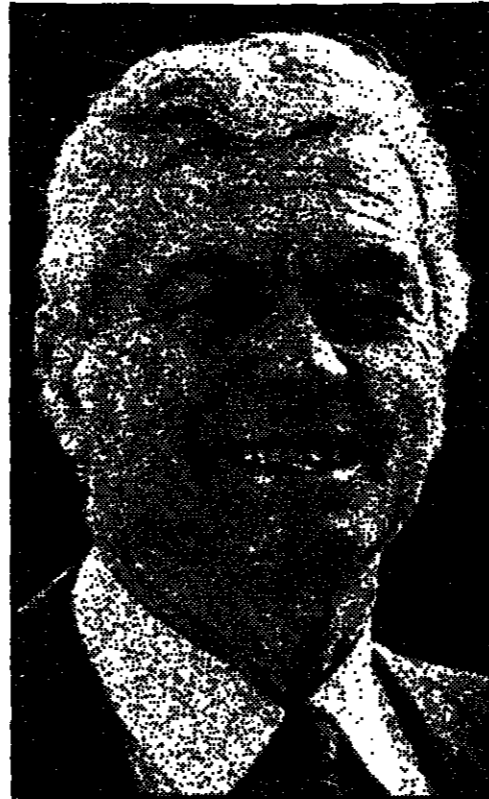
After more than 15 years in power—alone until May 1983 when it lost its absolute majority in parliament and in a coalition with the small right-wing Freedom Party (FPÖ) since then—the Socialist Party is no longer offering the certainty and clarity of purpose that characterised Socialist administrations during the 1970s.

The party which once stood for an uncompromising policy of full employment through deficit spending, and for unequivocal support for Austria's large nationalised sector, today appears hesitant, and its critics would say, incompetent. "We have always supported a policy of full employment. Now they (the Government) are acting as if the problem and many others do not exist. There is an enormous amount of waste and corruption but nothing is done," a young Socialist Party official says.

Such opinions are widely shared and go some way to explain the public disillusionment and cynicism with which politicians are increasingly regarded. They also partly explain the decline in the Socialist party's appeal. According to an opinion poll the party has for the first time in many months fallen behind the conservative Opposition People's Party (ÖVP). In just one month between December and January, support for the SPO fell from 45.2 per cent to 43.8 per cent.

Much of this decline is attributed to the crisis at Voest-Alpine, the state-owned steel and engineering group. The company's record losses of Sch 11.1bn, almost a third caused by speculation on the oil markets, shocked public opinion and led to calls for resignation of Mr Ferdinand Lachner, the minister responsible for the nationalised industries.

While the Government parties could expect to see a fall in their standing at this stage in the parliament's life, the decline in the Socialist Party's



Presidential candidates Kurt Steyrer (left) and Kurt Waldheim

popularity has become a growing source of concern among the party hierarchy.

The drift in support is not irreversible, but there is a disenchantment both inside and outside the party among its supporters or potential supporters which will be difficult to counter. Disillusionment is greatest among the young, women, and the left of the party, but there have also been rumbles among its solid core of supporters in the trade unions.

Sharing

The socialists can draw some consolation from the fact that the People's Party has not found the going any easier. According to the same poll, support for the ÖVP also fell, although more modestly, from 45.7 per cent to 45.1 per cent. With less than two months before the presidential elections and just over one year before a general election, neither of the main parties is doing well.

The current public mood suggests that for the first time in the present parliament's life the ÖVP can hope to be part

of the government after the general election (due by April 1987). With neither of the main parties likely to win an absolute majority, Dr Alois Mock, the People's Party leader, is banking on his party sharing power with the Socialists in a grand coalition of the type that ruled Austria from the end of the Second World War until 1966.

"There is a majority in favour of a grand coalition," he says.

The Socialist Party is divided on the issue. Dr Fred Sinowatz, the Socialist Chancellor, is satisfied with the present small coalition and shows no inclination for a change which would force him to share power more evenly with the People's Party. The left of the party would prefer either a minority Socialist government or a period of opposition, but many Socialists still hanker after a grand coalition.

Much of this will hinge on what happens in the presidential elections. If Dr Kurt Waldheim, the former United Nations Secretary General, loses after running as an inde-

pendent candidate with the support of the ÖVP, the party is expected to face serious difficulties of morale.

The same applies to the Socialist Party. All Austria's presidents have either been Socialists or elected with the support of the Socialist Party. A defeat for Dr Kurt Steyrer, the Socialist candidate, would not only break with tradition but also undermine Dr Sinowatz's leadership of the party and encourage those who want to return to first principles through a period of opposition.

For the Government and the Opposition the presidential elections will be an important test and a sounding board for the more important general elections. This explains why the campaign has become so

heated. The biggest row was over allegations suggesting that Dr Waldheim had been a member of Nazi organisations. Dr Waldheim vigorously denied the allegations which he said were part of a smear campaign to undermine his bid for the presidency. The imputation was that the allegations had come from within the Socialist Party, which was in turn denied by both the party and the Chancellor.

The row, and Dr Waldheim's energetic denials, appeared to have improved his chances through a rush of public sympathy.

A Gallup poll shows Dr Waldheim leading with 35 per cent and Dr Steyrer with 33 per cent. Another 6 per cent went to the two other candidates and 26 per cent remained undecided.

Timetable

The race will be a close one. Support for the two smaller candidates may force a second round of voting, prolonging what has been an unusually rough campaign. Ms Freda Meissner-Blau, the "Green" candidate, is expected to win the bulk of the protest vote in spite of having to face an embarrassing controversy over pension payments.

The candidate is Mr Otto Sgrinzl, a dissident member of the Freedom Party, known for his extreme right-wing views. His impact is expected to be more limited.

With electoral consequences dominating few decisions are being taken. This has led one commentator to say that Austria now had "a lame-duck government." After the Voest-Alpine crisis, the Opposition called for early elections, but the election timetable remains firmly in the Government's hands.

The Freedom Party, with its support running at about 3 per cent, faces a potential electoral collapse and it will want to hold off an election as long as possible. Chancellor Sinowatz has insisted that the Government will remain in power for its full term of office.

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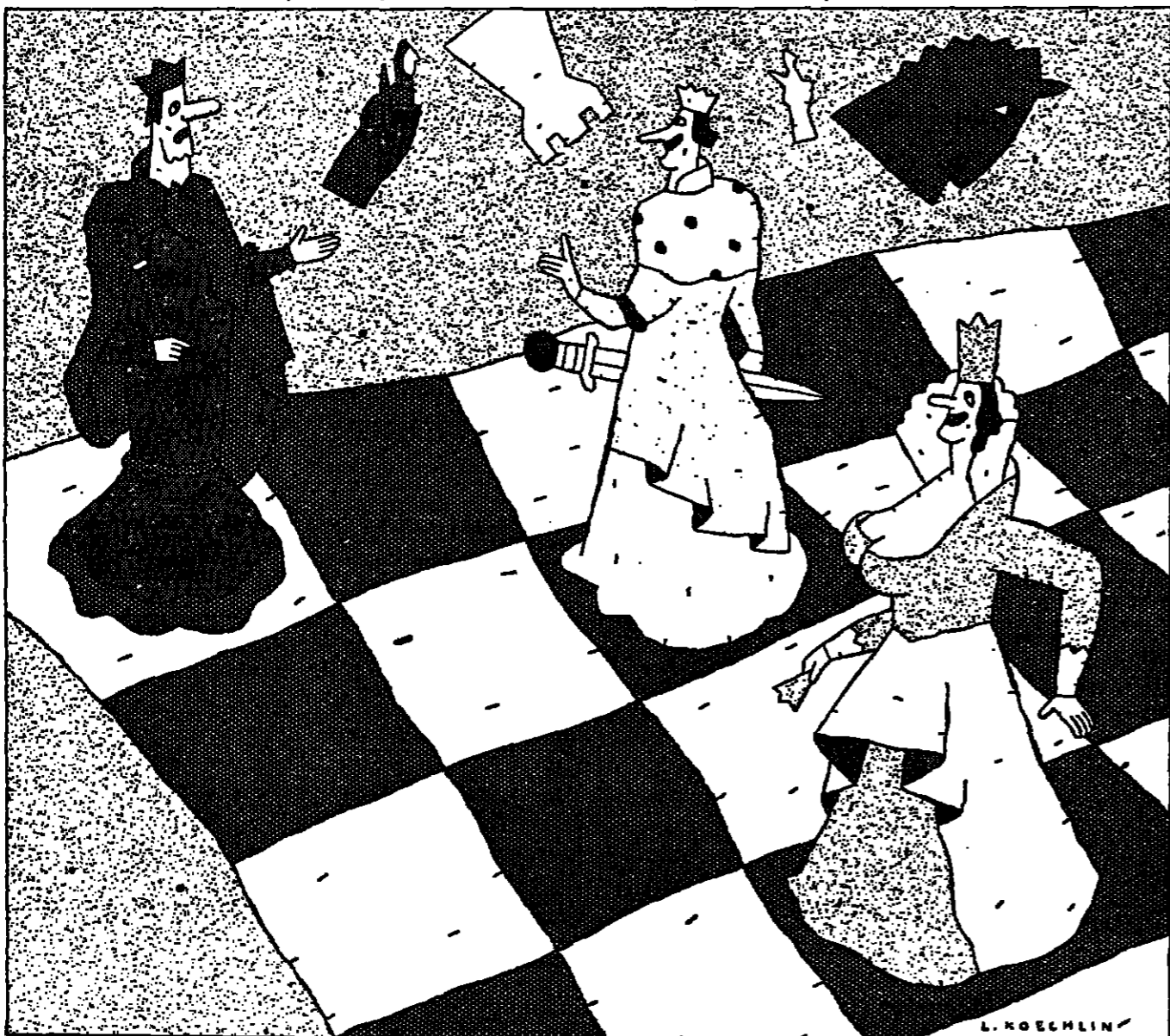
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Patrick Blum profiles the two candidates for the presidency

Kurt the diplomat v. caring Kurt

"KURT for president," says the badge. The slogan can hardly be controversial as it is fairly safe to predict that on May 4 Austrians will elect as president either Dr Kurt Steyrer or Dr Kurt Waldheim.

Dr Steyrer, the Socialist candidate, is campaigning strongly on the theme of continuity, presenting himself as a natural successor to Dr Rudolf Kirchschlaeger, the Socialist-backed president who has reached the end of his second term of office and has to step down.

Dr Steyrer is a sympathetic man of humble origins who studied medicine and worked as a dermatologist before entering parliament in 1975 and the Cabinet in 1981. He shares with Dr Kirchschlaeger a down-to-earth, unassuming image. His campaign has tended to stress personal qualities as a caring conscientious professional rather than as a political statesman. He gives the impression of prudence, looking after Austria much as he looked after his patients.

Dr Waldheim, standing as an independent with the support of the Conservative People's Party, has pitched his campaign on a loftier plane. He is emphasising his international experience as a former diplomat, foreign minister and, from 1972 to 1982, Secretary-General of the United Nations. A television commercial shows him shaking hands with a seemingly endless succession of world statesmen past and present, posed against the skyscrapers of New York or striding to the podium at the UN.

Remoteness

His campaign slogans, "a man the world trusts" and "his experience for us all," perhaps gleam less bright since the row over allegations suggesting that he had been a member of Nazi organisations and casting a shadow over his activities during the Second World War. Dr Waldheim has vigorously denied the allegations and described them as a smear campaign. His slogans nevertheless have an appeal for many Austrians sensitive to their country's standing in the world.

But Dr Waldheim, the son of a teacher, has been careful

to cultivate the common touch, returning to his home village in lower Austria for his birthday (and the TV cameras) to drink a few rounds with the locals. Episodes like these do not altogether dispel the impression of remoteness, even if given by a man who is reputed to hanker after ceremony and high office.

The controversy over Dr Waldheim's war record seems to have enhanced — at least temporarily — rather than damaged his chances of success. Since his energetic denials of the allegations he has benefited from a rush of sympathy. Abandoning his lofty diplomatic style, he has pledged that he would make the role of the president more active and interventionist.

Decorative

Dr Steyrer's snap, dismayed at the negative impact of the accusations against Dr Waldheim, have distanced themselves from them. Dr Steyrer has committed himself to a gruelling schedule of meetings which he hopes will take him to some 80 per cent of Austria's towns and villages. This, he estimates, will add an extra two or three percentage points to his vote, a small but he believes crucial difference that may win him the presidency.

With his slogan "I believe in our Austria," he hopes to win support by appealing to the electorate as a man of the people.

In spite of its largely decorative function, the post of President does carry some important powers. The President has the power to appoint the Federal Council as an important consideration in a country where coalitions are common. He may also dismiss the Chancellor and the whole government, dissolve parliament and call new elections.

The nature of the job — above party, above class, and above government — has led to similarities in both campaigns. In this strongly Catholic and predominantly rural but prosperous country, the themes of stable family life, the joys of nature and the countryside, are emphasised by both candidates. Both men wish to appear unifying, uncontroversial and above all non-partisan.

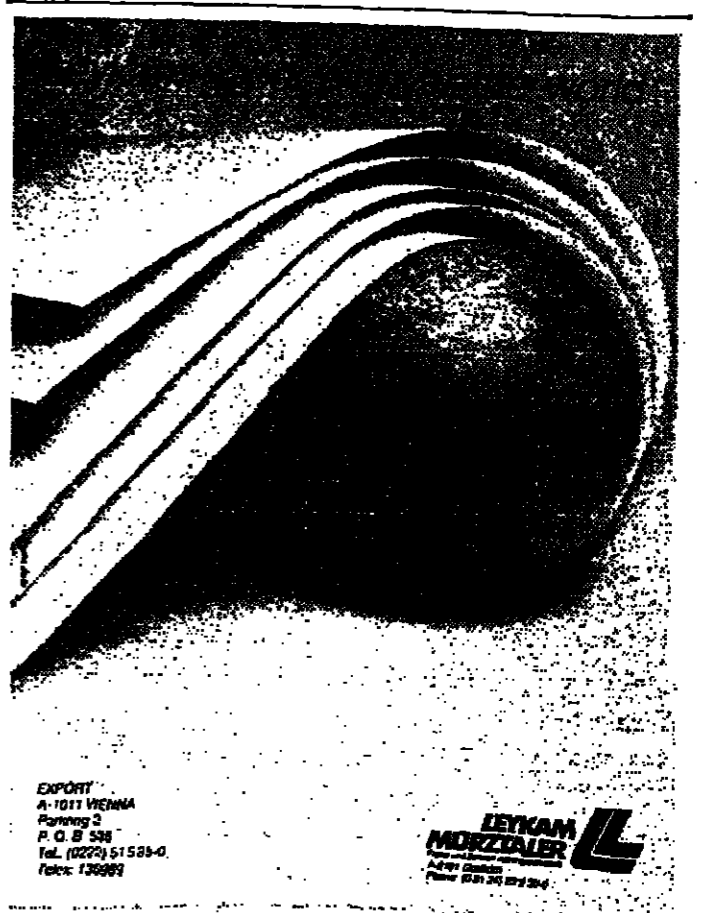
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Austria 3

Hard currency and anti-cyclical budgetary policy hides weak points

Growth assured by oil price fall

Economy

W. L. LUETKENS

AUSTRIA has set out on its fourth successive year of economic expansion and economists say that the collapse of world oil prices should ensure continued growth in 1987. The country is a heavy net importer of energy, so trade balance, disposable incomes and overall demand should all profit.

In Austrian currency the decline of the oil price will be accentuated by the fall of the dollar exchange rate. Given the limited presence of Austrian exporters on North American markets the adverse effect of the dollar devaluation upon Austria exporters should be bearable—hard though it has already hit, for instance, the steel industry.

Wifo, the Vienna economic research institute, has revised its forecasts for 1986 on the assumption that the barrel price of crude oil will average at \$20 against \$28 last year, and that the dollar will trade at Sch 16 (against Sch 20.7). That would make real growth of 3 per cent possible, an inflation rate of 2 per cent, and a current account surplus around Sch 5bn.

On more favourable assumptions of a price of \$14 and a dollar exchange rate of Sch 15, growth should be higher by another half percentage point and the inflation rate should come down to 1½ per cent. Under either scenario, unemployment should average a shade less than 4.9 per cent, low by most European standards, but not by those of Austria.

These good results are expected to come on top of a 10-year period during which Austria, unlike many other countries, sustained only two years of economic contraction—by 0.4 per cent in 1975 and 0.1 per cent in 1981. That record is due largely to a combination of an anti-inflationary hard currency policy and an expansive anti-cyclical budgetary policy. It has, however, become widely accepted that the anti-cyclical component of the policy mix, has helped merely to cover up certain weak points in the Austrian economy.

These weaknesses became apparent well beyond the borders of the country last November when the state-owned steel and engineering concern Voest had to admit to heavy losses. While the causes were manifold, overmanning and excessive dependence upon goods of only average sophistication ranked high among them. Both problems exist within private industry, though generally to a lesser extent.

Another sign that things are not as they ought to be is a persistent budget deficit. The struggle to consolidate the budget has gone on since 1981 with at best partial success.

Expressed as a portion of GDP, the deficit (including interest on the national debt but excluding repayments) soared over 5 per cent in 1983, came back to 4.7 per cent in 1985 and is estimated at 4.5 per cent this year. Before 1982 it was less than 4 per cent.

Estimates for 1986 need to be taken with a pinch of salt: the gross deficit (including debt service) last year came out higher than originally estimated and could do so again this year, in spite of growth prospects which are better than assumed when the budget was drawn up.

Dr Franz Vranitzky, the Finance Minister, identifies the areas where economies will have to be sought. Nationalised steel and engineering concern out of the red in three to four years, he says. Personnel policy in the public sector will have to be cautious. Something will have to be done about the losses of the railways, where some line closures have been carried out. And in the medium-term, reforms to the welfare system need to continue.

Welfare is an especially delicate point with a parliamentary election due by next April. But a first measure of retrenchment has failed to prevent welfare

costs rising as a proportion of the federal budget. Overall, welfare costs in 1985 are budgeted at Sch 126bn in total federal expenditure of Sch 493bn.

Dr Vranitzky says that efforts in these areas will have to be made in every year of the 1980s, implying that he hopes to see his aim achieved by 1990. To that end he (or his successor after the election) will have to assure himself of a great deal of political support, which has not always been forthcoming.

Failure would place in doubt the hard currency policy which consists of managing the Schilling to maintain a parity about Sch 7.03 to the D-mark. That policy has been the cornerstone of the Austrian way to control inflation. It has involved keeping interest rates slightly above those in Frankfurt, but has not generally imposed excessive strains. If the budget consolidation is delayed too long that could change.

At present there is no need to doubt the constant official assurances that the D-mark exchange rate will be maintained both because the policy has succeeded, and because departing from it would cause heavy costs. In his budget papers, Dr Vranitzky estimated that every percentage point of devaluation would cost him Sch 200m a year in enhanced interest payments on the republic's foreign debt.

More important, the hard currency policy, by keeping down the cost of imported consumer goods, is a condition of the trade unions' traditional wage restraint.

Nonetheless, some entrepreneurs are beginning to worry about the consequences of

Performance and prospects

	1985	1986
GDP growth	3.0	3.0
Unemployment	4.7	4.9
Increase of consumer prices	3.5	2.0

Source: Wifo, partially revised on assumption of an oil price of \$20 barrel and exchange rate of \$1=Sch 16.

Austria following further increases of the value of the D-mark within the European Monetary System upon Austrian competitiveness in the markets other than West Germany. The Association of Industrialists, however, remains wedded to a hard schilling.

A further appreciation of the schilling, added to the decline of the dollar would also hit the Austrian tourist trade, with its foreign exchange income (net of Austrian spending abroad) last year of Sch 45bn. The impact will be lessened because Germans, with their D-mark, accounted for \$2m overnight stays in Austria in the first 11 months of 1985 out of \$2m overnight stays by foreigners.

There are no particular fears for the winter seasons, but in the summer Austria has been losing market share to more southerly tourist countries. The real problem with both the budget and the current external account, and hence the exchange rate, is that both would be vulnerable to downturn. Once growth ceases, budget cuts will be harder than ever to make. And though the current account was almost in balance last year and is expected to show a surplus in 1986, if world trade contracts that surplus may rapidly melt away.



Karl Pale, director general of Girozentrale Bank (left), and Franz Vranitzky, Finance Minister

Braced for tough years under new regulations

Banking

PATRICK BLUM

FINANCIAL institutions in Austria showed strongly improved results for 1985, with sustained growth of business volumes and a marked rise of earnings. Profit margins, however, remain low by international standards and the banks are bracing themselves for tougher years ahead as they face new regulations designed to improve capital ratios and efficiency.

Last year's most significant event was a gentlemen's agreement drawn up by the banks to curtail voluntarily the cut-throat competition which followed deregulation in the late 1970s. The agreement sought to regulate lending and borrowing rates and to curb "unfair" advertising practices. The move established what, in all but name, is a cartel.

There were several reasons why the banks decided to take remedial action. Austrian financial institutions suffer from some of the lowest profit margins in their field among OECD countries. In the late 1970s and early 1980s operating costs soared while provisions against foreign lending strengthened considerably.

By 1983, the banks' capital base had deteriorated to the extent that the ratio of capital to lending had fallen to 2.5 per cent from 3.8 per cent in 1973, reaching about half the level 20 years earlier.

According to a study by one of Austria's main banks the interest income (difference between interest received and interest paid) in relation to balance sheet totals fell by more than 36 per cent from 2.2 per cent in 1974 to 1.4 per cent in 1984. This is attributed in part to a disproportionate growth in foreign currency business which incurs lower costs.

Several domestic factors affected the banks. Since 1977 Austrian banks have been able to start new branches without having to demonstrate the existence of a need to the Finance Ministry. This encouraged a scramble to open branches, which pushed up costs and further depressed profit margins. The Bank Act of 1979 and the subsequent reform of the Savings Bank Act completed effective transformation of credit institutions of any size into universal banks on the West German and Swiss models. These measures to some

extent sanctioned a process that had already gone a considerable way in preceding years. The traditional segregation between the various banking groups, commercial banks, savings and other specialised institutions dealing with agriculture and small business had already been eroded, but the results cut deeply.

A study for the OECD in 1983 on costs and margins in banking showed that profit before tax for Austria's joint stock banks fell by more than 22 per cent between 1979 and 1980. In spite of a small recovery during the following two years, by 1982 it was still lower than before the law was introduced.

Operating costs rose rapidly, increasing by 33.3 per cent between 1979 and 1982 for the joint stock banks and by 37.6 per cent between 1978 and 1981 for the savings banks. Most of the increase was due to the expansion of branch networks. All bankers now agree that deregulation went too far and too fast.

Self regulation

To make matters worse, a long public discussion began in the early 1980s about the introduction of a new tax rate deducted from interest paid on bonds and deposits. A rate of 7.5 per cent was finally imposed on January 1 1984 (since reduced to 6 per cent) with serious side-effects for the banks. Savings accounts stagnated, there was a sharp increase in industrial clearing (a system by which companies avoided the tax by lending directly to each other) and demand for foreign bonds and securities grew, which adversely affected the domestic market.

The combination of these factors encouraged the banks to seek some form of self-regulation. But even the most optimistic of Austria's bankers admit that last year's cartel could not be sustained indefinitely and that legislation was to some extent inevitable. That is why, in spite of initial protests, most bankers have accepted with some reservations government plans to amend the law.

The prime objective of the new law, to be presented to parliament before the summer, is to make the banks more efficient. Government officials believe that this could not be achieved by the banks' voluntary agreement.

The draft law stipulates that banks must raise capital ratios to 4 per cent of balance sheet totals within five years and by another half per cent to 4.5 per cent within the following five

years. It sets out new instruments, including two types of participations and subordinated capital to help the banks raise money. This is roughly equivalent to risk bearing, non-voting share capital which will carry higher distributions than for ordinary share capital but will receive no distribution in the case of losses.

Finance ministry officials say that the total amount of capital to be raised by the banks to bring capital ratios to the full 4.5 per cent would be between Sch 50bn and Sch 100bn, depending on the rate of growth of the banks' balance sheets. Assuming a 5 per cent growth rate, the amount to be raised would be in the region of Sch 85bn.

Dr Gerhard Wagner, chairman of Oesterreichische Laenderbank, believes that to raise such amounts the banks will have to seek at least some of their new capital outside Austria.

Finding the new capital will not be easy. Dr Karl Pale, director-general of the Girozentrale Bank, which acts as clearing bank for the savings banks, says that the law is necessary but that seven years would be better than the proposed five to reach the target.

Smaller banks fear they will be put at a disadvantage when raising capital. Most at risk are the Volksbanken, the small business and trading co-operatives. Many are under-capitalised and some of the large joint-stock banks are looking for pickings from this sector.

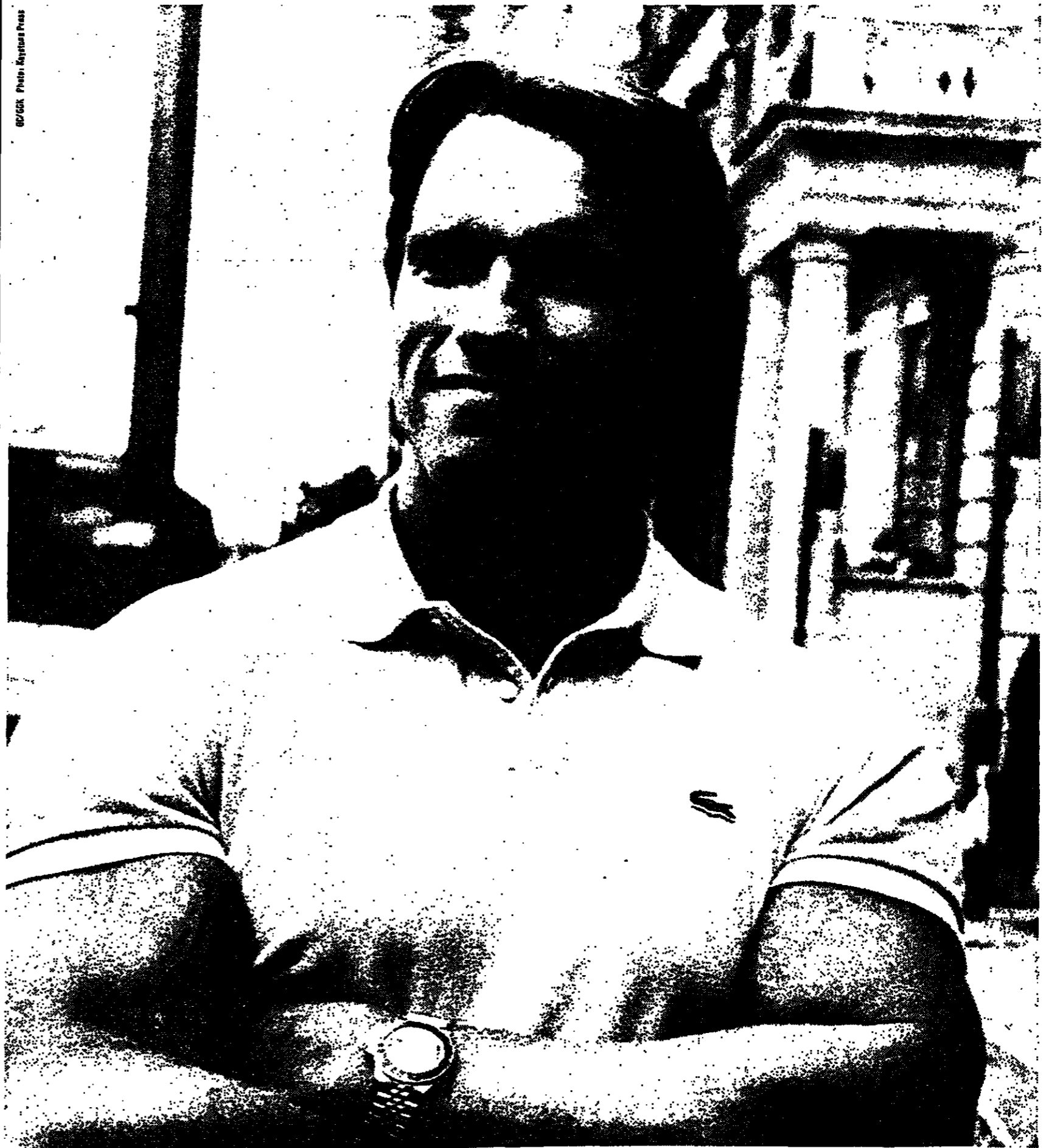
Some smaller savings banks may also face problems. Senior bankers believe that the law will inevitably lead to some restructuring within the banking groups.

This is not causing alarm at the Finance Ministry. Dr Franz Vranitzky, the Finance Minister, believes that Austria is over-banked and that some restructuring may not be such a bad thing.

Dr Hannes Androsch, director-general of the Creditanstalt Bankverein, agrees. "The Austrian banking business has to be streamlined. We must raise our competitiveness by international standards. We have had competition without profits; now we will have greater profit-mindedness," he says.

Whether the targets set by the Finance Ministry will be fully met is open to question, but some improvements in the banks' position seems more likely than at almost any time in the past decade.

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Stiffness and enterprise laced with kitsch

Vienna

W. L. LUETKENS

THE WITS had a field day when Vienna commemorated the fall of the Austrian empire in 1918. The occasion intended to celebrate the centenary of his birth, in 1885, or the 50th anniversary of his death, in 1957.

That mischievous little joke does hit something very typical of the Austrian capital. Vienna is deeply conservative and at the same time can be a hotbed of novelties. Its theatre and opera-goers—perhaps even its football fans—live the old stars, not the upstarts.

Yet the intellectual ferment of the last generation before the fall of the Austrian empire in 1918 has a claim to be regarded as one of the cradles of modern art and thought. The great names come to mind readily: Freud, musicians like Mahler and Schoenberg, architects like Otto Wagner and Adolf Loos, painters like Klimt and Schiele, who have only lately been discovered by the international art world.

All were celebrated in a blockbuster exhibition in Vienna last year, which has moved on to Paris and will open in New York on June 30. The show was planned by Hans Hollein, the architect, who is in the midst of a typical Viennese cultural storm.

Mr Hollein has designed a building for a corner of the square surrounding the celebrated cathedral of St Stephen in the centre of Vienna. The conservationists are outraged because they say a view of the cathedral will be blocked. They forget that the view was not open until Second World War bombing.

The co-existence of conservatism and progress, between stiffness and enterprise, laced with a measure of kitsch, characterises Vienna to this day. The dignity of the baroque town palaces of the former

nobility contrasts with the pomp of late 19th century piles along the Ringstrasse—long ago turned into offices—and with the starkness of council housing.

In the 1920s, Viennese council housing was regarded as a model for Europe. Red Vienna, as it was called by friend and foe, was a showpiece of socialism in action, though the socialist city government was following in the footsteps of 19th century populists who had little in common with socialist teaching. Their counterpart was Chamberlain's Birmingham in the UK.

Vienna has remained "red" to this day. Socialists reign in the city hall and about 200,000 flats—a quarter of the housing stock—belongs to the council. Subsidies have been heavily cut, but even so rents are intended to cover no more than running costs. Capital costs are born by the city.

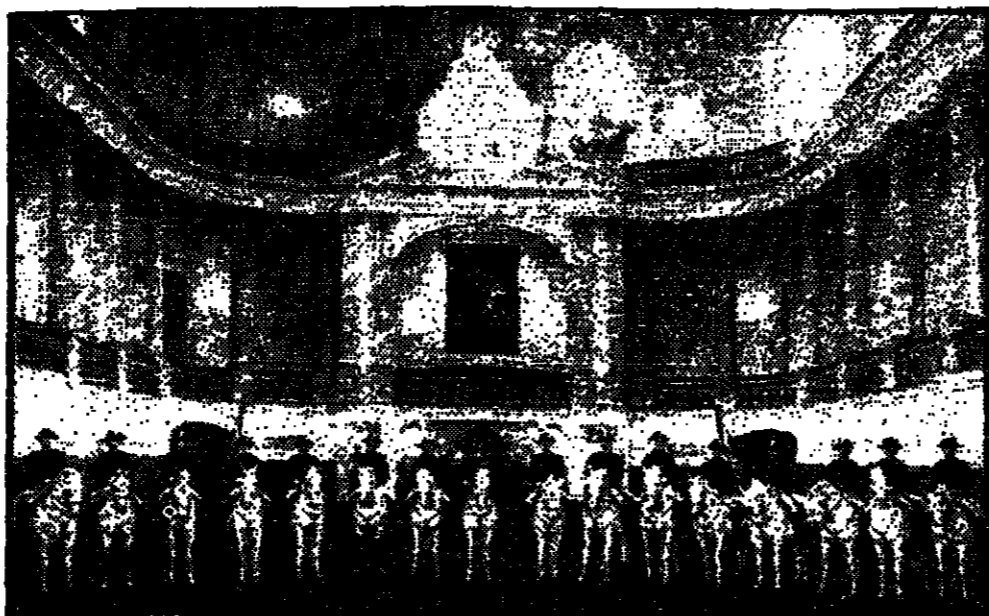
Profitable

Tenants enjoy what almost amounts to rights of ownership. (They can even pass on flats to their heirs.) The Conservative opposition will find it hard to gain support for its proposal to sell council housing as has been done in Britain.

Municipal socialism has also given the city a group of non-utility enterprises, from a porcelain factory to construction companies, employing 6,500 people. Mr Hans Mayr, deputy mayor and the man in charge of the city's finances, says that on aggregate these enterprises are profitable.

He intends to set aside Sch 20m (about £870,000) a year to provide venture capital enabling the city to support promising new entrepreneurs. The entrepreneur will have the right to buy out the city's holding at any time.

That amount is tiny when compared with the money Mr Mayr has available for industrial incentives. His war chest has risen to Sch 300m and he could find more if needed. About a third of the sum has been earmarked for a contribution to the capital costs of a General Motors plant, the second in



The Lippizaner-Spanish Riding School of Vienna

Vienna. The Austrian Government is providing twice that amount, leaving GM to foot 73 per cent of the bill.

These hefty subsidies are controversial. Critics say the cost to the community outweighs benefits in employment. Moreover, the revulsion against industry so common in the Green movements of the German-speaking countries has not passed Vienna by. A great deal of fuss has been kicked up about plans to harness the Danube near Vienna for a hydroelectric power station, for example. Mr Mayr says that the city is likely to try increasing to develop its services sector.

Internationally speaking, the most important part of the Viennese services industries is tourism. About 2m tourists last year spent 5.5m night in Vienna—7 per cent more than in 1984, and a record figure after 10 years of growth.

What brings all those people to Vienna? The monuments of an imperial past, often splendidly restored: one of the world's leading opera houses and one of its leading orchestras; art galleries (watch out, many close on Mondays); the stereotypes of Viennese Gemuetlichkeit, Apfelstrudel, zither music and the young wine (never mind last year's scandal about adulterated wines from Austria). Vienna also enjoys a reputation for streets without muggers. But do obey pedestrian lights. Driving habits are sharp and a Viennese zebra crossing is not recommended for playing "chicken".

Hotels have been enjoying a 50 per cent occupancy rate,

which sounds low but is reasonable by the standards of the business. Plans exist to add 4,600 beds, mostly in four- and five-star hotels, to the 32,400 hotel and pension beds available.

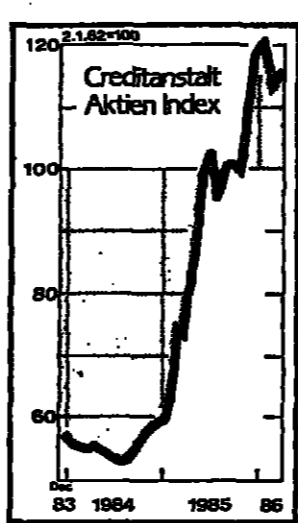
Filling them will pose problems. The traditional Viennese luxury hotel with its ample, helpful staff may have difficulties competing with some of the American-style new hotels, especially since next to the Germans, Americans are the most numerous visitors, with the Japanese coming ninth and growing in number.

Controversy

City authorities hope that a new conference centre big enough to accommodate 9,000 people, will help to fill the hotels. It, too, has been the cause of controversy, because the public purse will have to wait a long time before recouping its investment. An older, smaller, and more glamorous centre already exists in the Hofburg, the former imperial palace.

The new centre has been built next to the futuristic towers of the Vienna International Centre, known locally as the Uno-city because it has been leased to the United Nations as the organisation's third most important office complex after New York and Geneva.

The complex, lying forlornly on the northern shore of the Danube opposite the historic part of Vienna, is the brainchild of Dr Bruno Kreisky, the former Chancellor. He wanted a UN presence to underpin Austria's neutrality and security



in times of stress.

Vienna lies within an hour's drive of the borders of communist Eastern Europe and has a long history of conflict and settlement, of ethnic migration and assimilation. Just as what used to be known as the Iron Curtain has become reasonably permeable at the Hungarian border, so East and West have met, quarrelled and made up throughout history in this area. The Turks besieged Vienna twice: now they are accepted with reasonable tolerance as migrant labour. Czech, Hungarian and Croatian names abound in the Viennese telephone books.

Like the palaces, the art galleries and the opera house, it is a testimonial to an imperial past which continues to make Vienna a magnet for foreigners.

Narrow market puts limit on further development

Stock Exchange

PATRICK BLUM

AFTER A year in which it outperformed just about every other exchange in the world, the Vienna Bourse is expected to settle down to more moderate growth. Bankers—and they should know since the banks dominate trading—do not expect a repeat of last year's performance, when prices rocketed to previously unseen heights.

The reason for the caution is simple. The Vienna Bourse, which had lain dormant for years, still offers only a limited and tightly controlled market. The narrowness of the market contributed greatly to last year's spectacular rise in share prices; but, say more guarded analysts, it also imposes strong limits on future development. The argument is: what helped the Bourse go up can also bring it down.

Last year's performance was certainly spectacular. The official Bourse Index (Basse 100 at end of December 1987) rose by over 126 per cent, from 119.58 at the end of December 1984, to 270.59 at the end of December 1985, after reaching a record high of 283.34 in November.

The most spectacular increases were registered in the first half of the year. Share prices then stabilised over the summer, to rise again, though more modestly, in the autumn. Since the beginning of this year the index has moved up and down, between a high point of 256.45 and a low of 254.42, but the overall tendency has been for a slight decline.

Foreign investors gave the first impetus. Press reports abroad, suggesting that Austrian shares were undervalued compared with those in other international markets, spurred interest from foreign

investors and gave a first push to prices. Austrian investors followed, having been given additional incentives by tax reforms and the introduction of new shares.

Because of the Bourse's small size (last year about Sch 6bn worth of shares were traded on the Vienna Bourse itself, roughly half the total turnover in Austrian shares), the sudden increase of demand had a dramatic impact on share values as well as boosting trading.

Since the beginning of the year prices have tended to drop, with a few exceptions. According to the Bourse Branch Index, set at 100 at the start of each year only, the banks (index up to 105) and the breweries (index up to 104) have registered new growth. Chemicals (index down to 89), machinery and insurance (both down to 83) have so far declined, with shares in the building industry remaining roughly unchanged.

A bourse share analyst says the recent downturn will probably be temporary, and that share prices will go up again as new shares are introduced. A number of new issues are expected this year and this should retain interest and activity, he says.

Reforms

Dr Karl Pale, director-general of the Girozentrale Bank, and until recently president of the bourse, remains optimistic. "I think that our bourse will develop in a way similar to other international exchanges. We will see ups and downs as part of an overall process of stabilisation," he says.

Increased activity has encouraged the bourse to introduce reforms. Since the beginning of this year, trading hours have been lengthened by half an hour to two hours. The limit on the movement of share prices on each day has been raised from 5 per cent to 10 per cent for new shares during their first five days of trading to allow more realistic prices to be set. The practice of quoting shares in terms of percentages of their nominal value has also been abandoned in favour of unit prices.

The Government has introduced measures favouring investors. According to new tax

rules which came into force at the beginning of the year, the double taxation of equities has effectively been ended. Until this year a company paid corporation tax on profits, and shareholders paid tax on dividend income. This has acted as a disincentive for companies and investors alike. New regulations allow investors to deduct up to Sch 40,000 a year from taxable income, depending on the nominal value of newly issued shares bought.

Disappointments

One analyst says that Austrian investors have tended to invest in shares on a short-term basis. This, he says, is partly the result of the many years of neglect of the bourse. In the past year investors have tended to switch from one share to another, moving into the latest issue. Buying has tended to be speculative, based on the hope of a rapid rise in the value of new shares.

This, he says, has already caused some disappointments when prices failed to rise as high as expectations. This attitude is partly encouraged by the fact that, in the past, average yields on dividend were low, fluctuating between 2 per cent and 2.5 per cent.

The market is tightly controlled by the banks which do the bulk of the trading on and off the bourse floor. "They advise their clients on what to buy; they know what their clients are offering; and they themselves do most of the buying and selling. So they are in a very strong position to influence the market," a bourse analyst says.

This has led to accusations that the banks manipulate the market. Last year they made substantial profits from share dealing through buying and selling on their own account, as well as in commissions. But the bourse's rise was the result of factors outside the banks' control.

Last year not only helped the banks to increase their earnings; it also boosted the confidence of investors generally. That is something which the banks, which will have to raise additional capital to meet new capital ratio requirements, to be introduced later this year, will want to maintain.

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Consensus shaken by crisis

Industry
PATRICK BLUM AND
W. L. LUETKENS

SPECTACULAR losses of Voest-Alpine, Austria's state-owned steel, engineering, electronics and trading group, may prove to be a watershed in the history of the country's nationalised industries. The traditional consensus that has helped to shelter Austria's state sector—one of the largest of any western country—has been deeply shaken by Voest's crisis.

The problems besetting Voest—which is Austria's largest industrial group, employing some 70,000 workers—are symptomatic of difficulties throughout the nationalised sector. A solution will not be easily found in a country where compromise has often been an excuse for inaction.

The problems are not uncommon: many of Austria's nationalised industries need profound restructuring if they are to become profitable in a world where competition has become increasingly tough. Bureaucracy, political interference and inefficiency have taken their toll. Without some painful streamlining, the Government will have no alternative in the long term but to continue to provide ever-larger subsidies to cover losses.

The companies grouped under OIAG, the holding company for the bulk of the nationalised industries, have been told that the next package of subsidies will be the last and that they must make a profit.

Rationalisation, reducing the workforce and some closures, is inevitable if the Government wishes to improve its balance of payments politically awkward with a general election due at the latest by spring 1987, but the shock produced by Voest's crisis may give the Government and managers of state-owned industries more room to manoeuvre.

It is usual to compare the indifferent performance of much of state-owned industry, including the industries owned by a state-owned bank, with the much better showing of the private sector. Sparse available figures show that the profitability of industry at large improved last year, recovering to match its long-term trend.



Herbert Krejci, of the Industrialists Association

Given the losses of much of state-owned industry, that implies that private industry must have done quite well. But private industry, too, labours under a poor supply of equity capital and, except for a few shining exceptions, under a paucity of innovation. Expenditure on research and development is low by international standards—US\$50 per head of the industrial labour force, compared with \$2,700 in Switzerland. Though the Austrian system of apprenticeship in industry is highly praised, there are complaints that it is slow to adapt to innovation.

For historic reasons the share of relatively simple products is high in Austrian industry, and especially in state-owned industry. That is hardly surprising given that Austria was a largely agricultural country until the 1950s.

Dr Bruno Kreisky, the former Socialist Chancellor, wanted Austria to have a foothold in the motor industry. After tentative approaches to Porsche, Fiat, Lancia and Ford, he clinched a deal with General Motors. Attracted by considerable financial incentives, GM set up a plant in Vienna to manufacture engines and gearboxes which started production in 1982. This year GM decided to expand the plant to make electronic fuel injection components.

Another venture abroad, Ferrocromne Philippines, has been making substantial losses. Voest took over a mine in the Philippines on the understanding that the coal produced would be used in a nearby power plant built by a Japanese company. But it was found that the coal was unsuitable for the plant, leaving Voest saddled with a useless mine.

Mr Ferdinand Lacina, the minister responsible for the nationalised industries, admits that there are only three options: to close unprofitable plants, to sell them, or to find new partners. The last is the Government's preferred solution since it would prevent having to countenance large-scale lay-offs.

In the meantime the Government will continue to provide subsidies, but only on the understanding that loss-making companies will prepare plans for restructuring with the clear objective of returning to profits quickly.

Mr Franz Vrantzky, the

Finance Minister, says that the nationalised industries will have to come out of the red within three to four years and he has warned that the Government would not sustain loss-making enterprises indefinitely.

Since 1980 the OIAG group alone has received Sch 28.1bn in subsidies. An additional Sch 1bn has been disbursed to Oesterreichische Länderbank to make up for the collapse of three of the bank's main industrial debtors in 1981.

Subsidies totalling another Sch 7.3bn were agreed in November to cover the losses of three of the industrial holdings of Creditanstalt Bankverein, the country's largest bank. To these must be added billions in subsidies disbursed to the Austrian state railways and energy companies.

Solutions will not come easy. The OIAG group of companies accounts for more than 20 per cent of Austria's exports, employing more than 100,000 workers and almost a fifth of Austria's industrial workforce. Critics say it is dominated by vested interests and that it has become almost impervious to change.

This is not entirely fair as Voest's attempts to diversify show. There have also been some efforts at rationalisation. Some loss-making steel plants have been closed and more closures are expected to follow.

Dr Herbert Lewinsky, Voest's new chairman, admits that unpleasant decisions will have to be made but he also recognises that change will take some time. He says Voest is overmanned and overstretched but for the company's larger loss-makers more time will be needed to see if they can be restructured or whether they will have to be closed. But party political considerations may cause him more difficulty than he has bargained for.

The need for structural changes in Austrian industry has been debated for some time, as have obstacles to restructuring nationalised concerns. There are some indications that change is afoot. Debate has been joined about state-owned industry Austria has become a net exporter of machines and electrical equipment. Productivity has been growing more quickly than in West Germany.

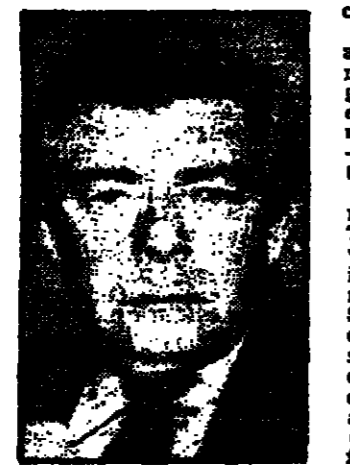
But as the case of Voest shows, the way ahead will remain arduous.

PROFILE: HERBERT LEWINSKY OF VOEST-ALPINE

BY W. L. LUETKENS

Taxpayers may prove ultimate threat

DR HERBERT LEWINSKY, a precisely spoken 57-year-old, has exchanged a successful career in the international oil business for the hot seat in Austrian industry.



Herbert Lewinsky

The socialist government of Dr Fred Sinowatz called him in to sort out the state-owned steel and engineering concern, Voest-Alpine, where mounting losses had shocked the Austrian public. The political consequences for the socialists of not staunching the haemorrhage could be incalculable.

Dr Lewinsky knows that he has a double brief: to get Voest out of the red—which, he says, will take time—but to do it in a manner which can be accepted, however grudgingly, by the trade unions and by regional politicians afraid of job losses in already depressed areas.

"Anyone who claims that he can run a huge national company without political interference is, of course, naive," Dr Lewinsky says. "But the question is whether or not you leave certain economic parameters in the hands of the management."

Dr Lewinsky will need both firmness and tact: the Chancellor, Dr Fred Sinowatz, has repeatedly said that nationalised industry must be rid of political backseat driving—but also that he does not wish to see "industrial graveyards" resulting from wholesale closures.

The new chairman of the Voest board thinks that he can cope. The concern's losses of Sch 11bn (500m) last year, he says, triggered decisions from the government such as would not have been taken before.

He says that he wants to work out Voest's problems together with the union-dominated works council, representing all staff, and with the understanding of the local politicians. "If in spite of this effort we should run into ideology that keeps us from doing the economically reasonable thing then . . . we

can mobilise the taxpayers." It is an implicit threat to appeal over the head of his masters, the government, to the government's masters in the electorate. Dr Lewinsky could not be so bold but for the shock—he prefers to call it an opportunity—caused by Voest's losses.

Accumulated losses have reached the Sch 20bn mark. They have two root causes: the world steel crisis and political interference. Previous management were forced to by Dr Sinowatz's predecessors to open unviable steel facilities in a depressed region of Styria (the Alpine bit of the concern's full name).

Ill-judged diversification into making commodity chips and a disastrous speculative sting in oil futures markets last year did the rest.

Oil speculation was stopped abruptly (perhaps too stopped) on government orders before Dr Lewinsky's arrival. He will not say what else he will close. For a start it is more likely to be cutting the edges rather than anything especially dramatic. He speaks of an emergency job, cutting "the weakest and most costly situations."

Dr Lewinsky, an Austrian citizen of part-Viennese, part-Silesian descent, has had his entire business career so far with Mobil Oil. After gaining

his doctorate in law at Vienna University he joined Mobil in Austria in 1961. From 1963 to 1965 he worked in charge of sales in the New York City area.

Back in Vienna, he joined the board of the Austrian subsidiary in 1965, became chairman in 1967 and then moved on to become board member, and later chairman, of the much larger Mobil operation in Germany. From 1975 to 1978 he served in London as head of the European section of the international division.

Many Austrians, by no means all trade unionists, are afraid that a career in a tightly-run multi-national may not have prepared Dr Lewinsky for the more pliable style customary in Austria. But, in fact, he says that Voest needs a more "participatory" style of management, drawing on the experience of executives just below board level. One of his first moves at Voest was to call in these men to introduce the new management and for a talk-in. That, he says, had never happened before. "If they start to think about their problems, they'll come back with the answers."

Dr Lewinsky knows that sooner or later he will face confrontation with one interest or another. Should he then fail to get the necessary backing, "I've made it clear that I don't need the job—I can live without it."

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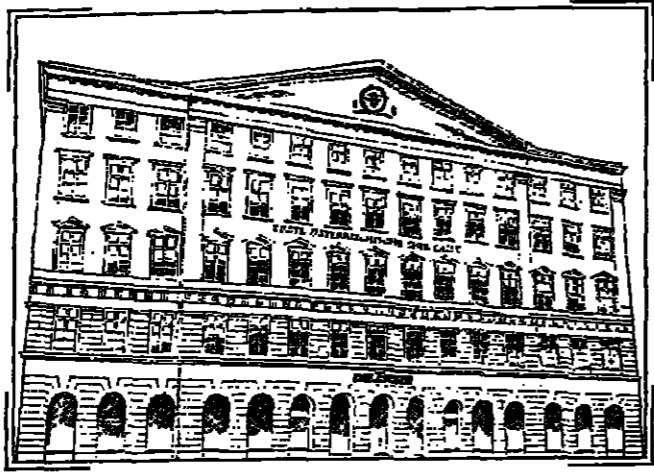
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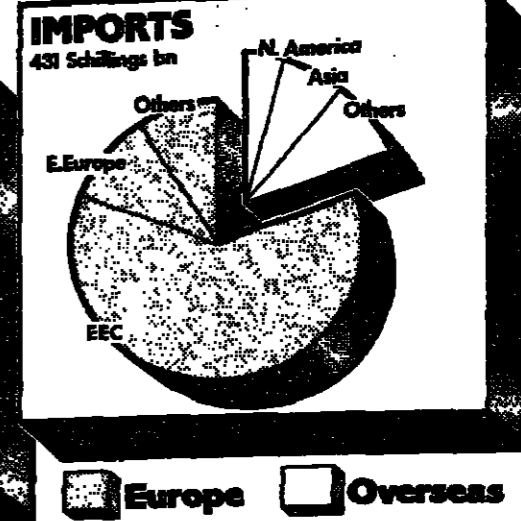
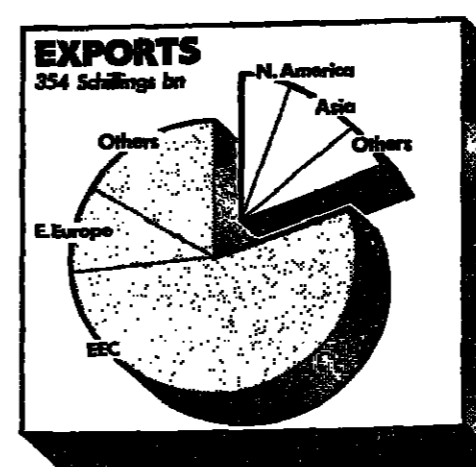
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Austria 6

Hungry for slice of EEC cake

Trade
W. L. LUETKENS

Austrian Trade 1985



INDUSTRY in Austria exports more than half its production by value compared with 35 per cent before the first oil shock in the early 1970s. On the face of it that is a solid achievement, but analysts in Vienna believe that more can be done.

The high export quota, like the high import penetration of the Austrian market, is typical of a small western European state. Compared with Switzerland, in particular, but also countries like Sweden and the Netherlands, the Austrian performance in world markets does not look good.

In 1983 Austrian sales expressed as exports per head of the population, were barely above half the average for nine European small states. More significantly, Austrian exports have a strong bias towards eastern Europe. In 1983 it was 12 per cent of total exports as opposed to 3 per cent in the case of Switzerland and Sweden, according to Dr. Helmut Kramer, head of the Wifo economic research institute in Vienna, citing OECD figures.

Eastern Europe normally takes about 11 per cent of Austrian exports though in the mid-1970s that share temporarily climbed close to 17 per cent. The Polish debt crisis and retrenchment in some other Comecon countries then took their toll.

Further retrenchment is in prospect this year because Comecon earnings from the sale of oil and gas to western Europe will decline because of the collapse of the world oil price. It is not the best augury for an Austrian trade fair to be held in Moscow next month.

Austrian Comecon exports were pushed strongly during the 1970s to safeguard high employment in industry and supplies of natural gas from Russia and of coal and electric power from elsewhere in Comecon. Austrian banks extended large amounts of export credit. Because Austrian domestic interest rates

tend to be lower than those in countries like Britain, Italy and France, and because the banks refinanced themselves on the low-interest Zurich and Frankfurt markets, rates charged to customer were low, without requiring a large element of subsidy.

However, profitability was low and there may have been an indirect subsidy in the equity capital that the state made available to nationalised industry and to the industrial affiliates of a state-controlled bank.

Recent Austrian successes in Comecon trade have been largely due to the finance extended, says Dr. Jan Stanekowski, trade expert at the Wifo institute. He estimates Comecon liabilities to Austrian banks at Sch 300bn (about \$9bn) and the Austrian share in eastern European debt to western banks at 13.8 per cent in 1984. The implication is that Austria has taken on a disproportionate share of risks, since its share in western sales to Comecon was only 5.4 per cent.

The orientation of Austrian exporters towards Comecon is strong but western Europe, and especially West Germany, with 30 per cent of Austrian sales, are the main outlet.

Dr. Herbert Krejci, secretary-general of the Austrian Industrial Association, says his members are anxious that

Austria, as far as neutrality permits, should partake in the development of the EEC internal market. Austria has a treaty with the Community permitting duty-free export and import of industrial goods. It does not take part in the Common Agricultural Policy.

Restrictions

In keeping with its strong trade ties with Europe, Austria is not well represented on the North American and Far Eastern markets. In 1983 some 3.5 per cent of Austrian exports went to North America, whereas the Swiss and Sweden sold 9.8 and 9.9 per cent respectively of their exports there.

During the recent phase of a high dollar, Austrian exporters increased sales in North America substantially, but now that the dollar is down much territory will be lost. Austrian steel, which in any case had been hit by American import restrictions, no longer is competitive there.

One reason for the relative inattention to America is the traditional closeness of trading links with Germany, and especially West Germany, based on a common technology and culture. This connection has advantages, but it has slowed Austria's advance from being a supplier of components or

relatively simple goods such as wood, paper and steel, to a supplier of finished products.

Dr. Kramer sees this as a weakness because it has prevented many manufacturers establishing in world markets as quality producers in their own right.

The case must not be overstated. Some Austrian manufacturers are powers on the world market — some are dominant powers. Almost without exception they are small even by Austrian standards and privately owned.

But most Austrian exports are less specialised and sophisticated, so prices are at the mercy of a competitive world market. That means that the advances Austria has made with its market shares by volume has not been matched by similar advantages in value.

The close Austria-West German links do not make things easier for exporters elsewhere serving the Austrian market. Dr. Stanekowski sees opportunities at the very top and bottom of the market for consumer goods.

The market is small but affluent. To a certain extent it can be considered an extension of the West German market, since that country's TV and publications have a wide following in Austria.

PROFILE: AKG

BY PATRICK BLUM

Reputation built on innovation

PRINCE Charles, President Reagan and Fidel Castro have used them, so have the pop group Abba, the Vienna Philharmonic Orchestra, Frank Sinatra and Tina Turner, and some of the world's greatest sopranos. Microphones produced by Akustische und Kino-Geräte Gesellschaft (AKG), a medium-sized private Austrian company, have won a worldwide reputation as some of the best professional microphones.

Comparisons with other companies are difficult because of the wide range of products and high degree of specialisation in the industry. But AKG says that with more than 1,300 of its patents used worldwide it has few rivals and many competitors.

Since modest beginnings in 1947, AKG has built its reputation with several innovative products, many of which set standards for the industry. The company employs about 650 people and the emphasis on development and technical excellence remains a key element of its success and philosophy.

About 8 per cent of turnover is devoted to research and development annually, far above the average for Austrian industry. Since 1973 the company has used some of the most advanced manufacturing processes, including computer-aided design, Mr. Leopold Steinkellner, AKG chief executive, says that between 50 and 60 per cent of the company's turnover comes from products less than five years old.

Close contact is maintained with large customers to discover problems and what new products they might need. Twice a year technicians from Vienna take their BBC counterparts for detailed discussions. "The BBC is still considered to have the highest technical standards in the world. If they take a product, others follow, so it is a very important toner for us," Mr. Steinkellner says.

AKG also maintains close collaboration with universities and research institutes in several countries, sending some of its researchers on secondment. But product development is closely guarded and carried out exclusively in Vienna. The company is thinking of moving into new areas but only in fields where it is experienced.

Exports

Consolidated group turnover last year was Sch 549m (US\$36m) with exports accounting for about Sch 325m. Net profits were Sch 25.6m for the year ending June 1985 and the company paid a 14 per cent dividend to shareholders.

The largest share of exports goes to the US and West Germany (about 25 per cent each), followed by the UK, France, Italy and Japan. The domestic market takes about 10 per cent of group sales.

Exports are crucial, since the Austrian market is too small and could not sustain the company's development efforts, Mr. Steinkellner says. In pursuit of foreign markets it has established trading and servicing

subsidiaries in West Germany, the UK, Japan and, last year, in the US. A network of distributors and agents has been built in about 100 countries. An additional back up, it has also established co-operation with companies in Britain, Switzerland, India and recently in China for manufacture of AKG products under licence. Exports have to be approved in Vienna, and product quality is closely controlled to maintain AKG's reputation. Under the agreement with China AKG will supply knowledge and equipment and supervise the installation of a manufacturing plant in Shanghai.

Discussions are taking place about establishing a joint venture in the US. This aims to take advantage of the high level of development in the electronics industry there, expand sales and help overcome potentially damaging exchange rate fluctuations.

About 37 per cent of production in Vienna is concentrated in high-performance professional broadcasting and recording equipment and public address systems; 23 per cent in consumer electronics (headphones, cartridges, microphones); and 31 per cent in telecommunications equipment including air-traffic control, telephone and measuring equipment.

In 1984 the company widened its capital base by issuing shares on the Vienna Bourse. A new holding company, AKG Holding, was established with a nominal capital of Sch 84m, with control of 75 per cent of the shares of AKG, the manu-



Prince Charles using "AKG" microphones

facturing company. The remaining 25 per cent of the shares is held by Dr. Rudolf Goerlitz, one of AKG's two founders, who at 78 still plays an active role in the company. The shareholding of Mr. Ernst Fless, AKG's other founder, was sold by his family in the mid-1970s.

AKG Holding is 30 per cent owned by private investors, 30 per cent by the Oesterreichische Landesbank and 40 per cent by Philips Austria, which relinquished its majority control when the company went public. Philips's involvement in AKG dates back to 1962 and was designed to take advantage of AKG's expertise in acoustic equipment.

The shares have been among the star performers on the Vienna Bourse, rising from their initial price of Sch 1.550 per Sch 1,000 share in October 1984 to Sch 5,600 this month. Other share issues are planned.

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